# FINANCIAL TIMES

World Business Newspaper http://www.FT.com

MONDAY MARCH 8 1999


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**EU/US conflicts threaten transatlantic relations**
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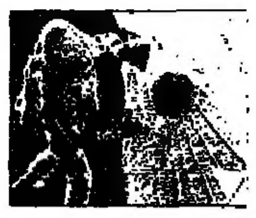

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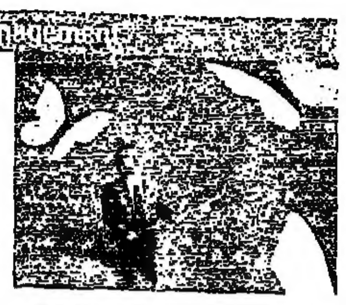
The FT's 12-part series on the I in IT continues today. Part Six: knowledge management



## WORLD NEWS

### Germany's Greens vow to be more active in government

Germany's Green party vowed to renew its traditional policies and play a more assertive role in government, as its congress tried to tackle political setbacks and falling popularity. **Page 2**

**OECD report warns on ECB risks**
A report by the Organisation for Economic Co-operation and Development warned there was a risk that pressure from individual countries within the euro-zone would dominate ECB decision-making. **Page 2**

**China looks to domestic demand**
Chinese officials said that stimulating consumer demand would be the main engine of economic growth this year. **Page 16**

**Republicans criticise US security**
The Clinton administration was criticised by senior Republican lawmakers for failing to act forcefully to combat espionage by China. **Page 3**

**Poll gain for Austrian far-right**
Austria's governing coalition suffered a blow when far-right opposition leader Jörg Haider won a victory in a poll in his home state of Carinthia. **Page 2**

**UK cab drivers face Brussels clash**
The European Commission is on a collision course with Britain's notoriously truculent taxi drivers over plans to impose working time restrictions. **Page 7**

**Russia evacuates Chechnya staff**
The Russian government evacuated its remaining officials from the troubled breakaway Caucasian republic of Chechnya following the kidnapping of a top civil servant on Friday. **Page 2**

**Italy rules out emergency budget**
The Italian government ruled out introducing an emergency budget this year in spite of indications that it is certain to miss its deficit target for 1999. **Page 2**

**Beijing warns on missile defence**
Beijing renewed its warnings to Washington over the possible development of a US missile defence system in Asia. **Page 3**

**Khmer Rouge leader captured**
Ta Mok, the ageing military leader of the defunct Khmer Rouge guerrilla group, was captured by Cambodian government troops. **Page 2**

**Guerrilla group denies killings**
Colombia's largest left-wing guerrilla group denied responsibility for the murder of three US citizens in Colombian territory last week. **Page 2**

**Mexican party elects leader**
Mexico's National Action party elected a leader who raised the prospect of a broad opposition coalition to challenge the ruling party. **Page 4**

**Director Stanley Kubrick dies**
Film director Stanley Kubrick died at the age of 70 at his home in Hertfordshire, England, where he led a reclusive life. His films included *2001: A Space Odyssey*, *A Clockwork Orange* and *Full Metal Jacket*.

## BUSINESS NEWS

### Olivetti will have to pay high interest rates to fund bid

Olivetti, the Italian telecoms group, will have to pay unusually high borrowing rates as it begins raising a loan of €22.5bn ($25bn) this week to help finance its €53bn hostile bid for Telecom Italia. It has set terms of 225 basis points over Libor for the three-year loan even though Tecnost, the subsidiary raising the cash, has received a BBB+ credit rating from Standard & Poor's. **Page 17; Lex, Page 16**

**Viag's** head Wilhelm Simson is threatening to lead the German utilities company out of talks on nuclear power, and to move parts of its business abroad, if the government does not change tax reform plans. **Page 2**

**Cable and Wireless**, UK-based telecoms group, may make an offer to take control of Japanese telecoms operator International Digital Communications. But the move could run foul of NTT, the country's telecoms giant. **Page 17; Lex, Page 16; C&W shakes up Japan, Page 21**

**A DaimlerChrysler** board member has indicated that the German-US carmaker is considering taking a stake in Nissan Motor, mainly to stop other vehicle makers spoiling a likely tie-up with Nissan Diesel. **Page 19**

**EMI**, the embattled music group, has appointed Eric Nicoll, chief executive of UK food group United Biscuits, as chairman to replace Sir Colin Southgate. **Page 17; Lex, Page 16; Internet move, Page 18**

**BSCH** of Spain, the euro-zone's newest bank, made its debut over the weekend with the announcement of a plan to lift annual net profits by 25 per cent this year and next. **Page 20**

**Veba**, the German industrial and energy group, faces heavy start-up losses at its telecoms division which mean that 1998 net profits will fall below 1997 levels. **Page 21**

**Merrill Lynch** chief David Komansky took an 11 per cent cut in his 1998 compensation to $9.9m, reflecting Merrill's weaker performance last year. **Page 19**

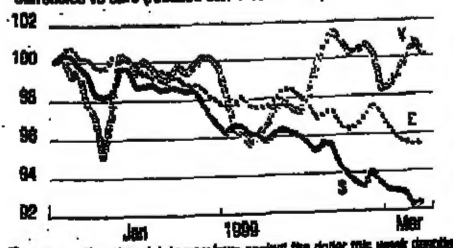
**Brazil** and the International Monetary Fund have agreed new rules governing the central bank's intervention in forex markets to stabilise the Real's value. **Page 4; Lex, Page 16**

**De Beers** of South Africa has signed a deal with BHP, the international mining group, to sell 35 per cent of the diamonds which are produced at Canada's first mine. **Page 21**

**Hyundai Motor's** ousted chairman Chung Se-yung, who built up South Korea's largest carmaker, has given up control of the company in a family feud. **Page 17**

**Chevron**, the US oil group, is to revise its fourth-quarter earnings to reflect a charge of $637m because of an Oklahoma Supreme Court ruling. **Page 21**

**Progress of the euro**
Currencies vs euro (rebased Jan 1 1999=100)




Euro exchange rates

| | |
|---|---|
| Dollar | 1.0951 |
| Yen | 132.67 |
| Sterling | 0.6741 |
| Swedish krona | 8.9305 |
| Danish krone | 7.4304 |
| Greek drachma | 321.78 |
| Swiss franc | 1.5921 |

The euro continued to sink to new lows against the dollar this week despite the decision of the European Central Bank on Thursday not to cut interest rates. But it rose against the weak yen

Euro-zone, Page 25


London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

| | | | | | |
|---|---|---|---|---|---|
| Bahrain | Din1.300 | Iceland | IKr265 | Oman | OR1.75 |
| Belgium | BFr90 (€2.23) | Italy | L3900 (€2.01) | Poland | Zl 10.00 |
| CIS | US$4.00 | Jordan | JD1.75 | Portugal | Esc320 (€1.60) |
| Croatia | Kn19.00 | Kuwait | KWD0.750 | Qatar | QR13.00 |
| Denmark | DKr16.00 | Latvia | Ls1.65 | South Africa | R16 |
| Estonia | EKr34.00 | Lithuania | Lit21.00 | Spain | Pta325 (€1.95) |
| Finland | Fmk13.00 (€2.19) | Lebanon | LBP3,500 | Sweden | SKr20.00 |
| France | FFr14.00 (€2.13) | Luxembourg | LFr90 (€2.23) | Switzerland | SFr3.50 |
| Gibraltar | £0.85 | Morocco | Dh16.00 | Syria | S£80.00 |
| Greece | Dr500 | Netherlands | Fl 4.80 (€2.18) | Tunisia | Din2.000 |
| Hungary | Ft380 | Norway | NKr16.00 | UAE | Dh13.00 |

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# US faces Caribbean threat to quit drugs treaty

## Washington warned of retaliation over 'banana wars' as EU fights sanctions

By Canute James in Kingston and George Parker in London

Caribbean countries are threatening to renege on a treaty with the US to fight drug trafficking in retaliation for Washington's stance in its "banana war" with the European Union.

The US moved to impose trade penalties on the EU last week, accusing it of failing to comply with a World Trade Organisation ruling that its banana import policies favoured Caribbean growers at the expense of Latin American producers.

The Caribbean Community (Caricom), a 15-member regional trade group, said at the weekend that its members were reconsidering the drug control pact and would also not honour several economic pacts because of Washington's decision to impose sanctions on European imports.

The Caribbean move came as the EU prepared to seek support today from the 134 countries of the WTO at a meeting in Geneva.

Caricom said that, by imposing sanctions on EU exports, the US had "undermined the essence" of agreements between Caribbean leaders and President Bill Clinton two years ago on trade and security.

"The US has taken action not only to damage our bananas but to penalise Europe for not taking action to damage our bananas," said Edwin Carrington, Caricom's secretary general. "In the light of that, we have to review the agreement we have."

Under a controversial treaty with the US, reluctantly signed by several Caribbean governments, US law enforcement agencies are allowed to pursue suspected drug traffickers into the countries' territorial waters and air space.

The Caribbean stance will be formally put to Madeleine Albright, US secretary of state, when she meets Caribbean Community foreign ministers in Washington next month.

The UK has also been forcefully pressing the case for Caribbean economies. On Saturday, Robin Cook, the UK foreign secretary, urged Ms Albright to end the damaging dispute. In a statement released by the Foreign Office, he said: "The damage to our trade could be real."

The British prime minister, Tony Blair, is expected to hold further talks with Mr Clinton in an attempt to reach a settlement in the banana dispute.

Mr Blair's spokesman said he was well aware that Washington was under political pressure to apply sanctions to the EU. "We will see if there is anything we can do to help the US administration overcome these political issues," he said.

However, Mr Blair has already made it clear to Mr Clinton that Washington must lift the sanctions immediately.

The UK government holds out little hope of the specially convened meeting of the WTO in Geneva resolving the stalemate today.

The EU asked for the urgent meeting of the WTO's general council after Washington last week told importers of EU products ranging from Scottish cashmere sweaters to Italian pecorino cheese to post a bond of 100 per cent of the goods' value.

The general council cannot force the US to back down but the EU hopes WTO members will condemn Washington's action. The EU also launched a formal WTO complaint against the US.

A partnership in peril, Page 15

Nikola Poplasen, left, leader of the nationalist Radical party who was fired as Bosnian Serb president on Friday by the international community's representative, confers with his party's deputy president, Mirko Sarovic, at an emergency parliamentary session yesterday. Serbs protest at sacking, Page 2; US may send Holbrooke to Belgrade, Page 16

# Brussels to crack down on state guarantees to business

By Emma Tucker in Brussels

The European Commission is preparing to crack down on governments that subsidise business and industry through state guarantees, according to senior EU diplomats.

Rigorous guidelines spelling out the illegality of certain types of guarantee under EU state aid rules should be in place by the end of the year, said officials.

The long-awaited move has been triggered by suspicions that many state guarantees – enabling enterprises to borrow money at unrealistically cheap rates – are anti-competitive and distort the single market.

The push is likely to be resisted by Germany and Austria, which fear that the status of their public banking sectors, underwritten by unlimited guarantees, could be questioned.

However, Karel Van Miert, the competition commissioner spearheading the initiative, does not need the agreement of the member states to press ahead with his plans.

Under the proposals, presented to member states at a meeting last month, governments will be granted a grace period of several months during which they will be able to come clean about all their state guarantees without fear of penalty.

The amnesty should ensure there is no turmoil on the financial markets – where some bonds are underwritten by state guarantees – and that governments reveal the full extent of their activities.

According to a senior diplomat, most member states – worried about the legal uncertainty of state guarantees – were enthusiastic about the proposals. However, Germany and Austria said they were a "disgrace and terrible".

State guarantees enjoyed by Germany's regional "landesbanks" ensure them top credit ratings, an obvious advantage when competing for business on international capital markets. Private banks in other EU countries dislike the system, but have so far shied away from making a formal complaint to Brussels.

However, the Commission is investigating claims by Germany's private sector banks that West Deutsche Landesbank, Germany's third largest bank, received unlawful handouts of up to DM5.9bn (€3bn, $3.3bn).

The issue is sensitive in Germany. Two years ago Helmut Kohl, the former German chancellor, told Mr Van Miert not to do anything that could force Germany to restructure its public banking sector and linked the preservation of their status to a successful launch of the euro.

During the amnesty Brussels will adjudicate on the legality of the state guarantees presented. If they turn out to be illegal, member states will have to reclaim the aid from the beneficiaries. However, if the beneficiary defaults on the loans the banks will continue to be covered by the state guarantee.

It is unclear whether Germany and Austria will take advantage of the grace period to reach an agreement with the Commission about the status of their public banks. As they insist that their structure is within the law, they will probably choose not to. However, they then risk a full scale state aid investigation by the Commission.

# Goldman partners expected to back revived flotation

By Tracy Corrigan in New York

Goldman Sachs's 221 partners are expected to vote today in favour of a management proposal to float the company on the stock market.

The management committee of Wall Street's oldest remaining partnership agreed last week to put forward the proposal to float 10-15 per cent of the company in an initial public offering.

Partners around the world will view a presentation on the IPO by video link, starting at 7am New York time and lasting several hours. The vote will be taken by ballot after the meeting, with the result due later in the day.

An attempt was made to bring the company to market last year. After a lengthy debate partners voted to move forward with an IPO, but that was shelved in September when Russia's debt default and the near-collapse of Long-Term Capital Management, the hedge fund, affected market conditions.

However, Goldman's management consistently said that it remained committed to reviving the IPO as soon as market conditions permitted, despite a surprise management reshuffle in January in which Jon Corzine, the driving force behind the move towards public status, resigned as co-chief executive officer. Although he remains co-chairman, he is expected to leave after completion of the IPO.

Today's vote is viewed as a formality, though many partners privately say they fear that Goldman will lose its unique culture when the partnership becomes a public company.

A filing for the IPO with the Securities and Exchange Commission is expected to follow, when Goldman announces its first-quarter earnings next Monday. The IPO is expected to be launched in May or early June, following a roadshow, and is likely to be worth $2bn-$3.5bn, reflecting a valuation for the company of $20bn-$23bn.

First-quarter earnings are expected to be strong, after a poor fourth quarter resulting from fixed income trading losses. Analysts had expected Goldman to wait until it had had two strong quarters before offering a stake in the company to investors, but they say there should be plenty of demand, since opportunities to buy blue-chip financial stocks at a discount are rare.

Goldman executives are keen to move forward with the IPO rapidly to end a period of uncertainty and to take advantage of improved but still fragile market conditions.

Goldman is also expected to announce today the appointment of a new chief financial officer, a crucial role as it restructures its capital base. David Viniar, the new CFO, replaces John Thain, who was elevated to co-chief operating officer earlier this year. He previously ran the finance area, reporting to Mr Thain.

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# WORLD NEWS

BOSNIA WESTERN POLICY IN DISARRAY AS DISPUTE OVER SERB CONTROL OF BRCKO INFLAMES TENSIONS

## Serbs protest over president's sacking

By Guy Dinmore in Belgrade

Western policy in Bosnia was in disarray yesterday after Serb hardliners and moderates united in condemning the removal of Serb control from the disputed town of Brcko and a separate decision to dismiss their nationalist president, Nikola Poplasen.

During an emergency session in parliament, Milorad Dodik, the moderate prime minister of the Serb-controlled half of Bosnia, Republika Srpska, urged the assembly not to accept the Brcko decision. Mr Dodik, whose coalition government had been promised generous aid packages, shocked his western backers by offering on Friday to resign over the issue.

Carlos Westendorp, the international community's High Representative in Bosnia who on Friday fired Mr Poplasen, was hoping parliament would reject Mr Dodik's resignation and agree to engage in negotiations on how to implement Brcko's new status.

"It's pretty painful but we are hoping to get over it," commented one western diplomat in Banja Luka, the capital of Republika Srpska where parliament was expected to continue its debate on the future of Mr Dodik and his rival, Mr Poplasen, today.

Brcko, a strategic port on the Sava river, was the only part of Bosnian territory left unresolved by the 1995 Dayton peace treaty that created two entities – the Moslem-Croat federation and Republika Srpska. Serb forces that expelled the Moslem-Croat majority were left in control pending a ruling by Roberts Owen, a US lawyer acting as arbitrator.

In a compromise decision that angered the Serbs, Mr Owen announced on Friday that Brcko would become a neutral, autonomous zone answerable to Bosnia's collective presidency, an institution that has so far failed to function. Serb protesters on Saturday destroyed a western-funded radio station and attacked foreign vehicles. Tensions were also heightened when US troops in eastern Bosnia shot dead a member of Mr Poplasen's Radical party who they said had attacked them.

Mr Westendorp sought to defuse the crisis. He said both sides had 60 days to comment on details of the Brcko plan that had yet to be finalised. He also denied that Bosnian Serb territory would be cut in two by the town's new status. Brcko straddles a narrow corridor of land linking the east and west of Republika Srpska.

Mr Poplasen attended the parliamentary session despite being sacked by Mr Westendorp who accused him of opposing the Dayton peace process and seeking to oust Mr Dodik.

## OECD report warns on ECB risks

By Alan Beattie in London

The European Central Bank must avoid being a prisoner of national considerations, a report from the Organisation for Economic Co-operation and Development said yesterday.

The OECD's thrice-yearly Financial Market Trends publication said there was a risk that pressure from individual countries within the euro-zone would dominate ECB decisionmaking. "Even in the United States there is some evidence that local conditions influence the votes of Federal Reserve district presidents. The ECB could be more vulnerable in this regard," the OECD report said.

The study from the Paris based think-tank argued that as long as the euro-zone's labour and product markets remain inflexible, the ECB could become a focus for public pressure to change monetary policy.

Area-wide political bodies including the European Parliament and Ecofin, the EU finance ministers' committee, should not allow themselves to become the vehicles for such pressures, the publication said. It recommended that the ECB develop a central role in euro-zone economic analysis and research rather than relying solely on the individual central banks.

The report's arguments may be read by many as a warning that much of the recent pressure on the ECB has come from politicians pursuing national goals.

Oskar Lafontaine, the German finance minister, has repeatedly criticised the ECB since the launch of the euro for failing to cut interest rates. Germany has displayed some of the weakest economic performance in the eurozone recently. Data last week showed the German economy shrank by 0.4 per cent in the fourth quarter of 1998. This contrasts with relatively healthy growth in France and continued rapid expansion in some of the peripheral euro-zone economies such as Ireland and Portugal.

The OECD study also cast doubt on the usefulness of the ECB's intermediate monetary target. The ECB has set a "reference value" of 4.5 per cent annual growth for the euro-zone broad money aggregate, which includes most bank deposits as well as notes and coins in circulation. But as financial markets develop with the advent of the single currency, the broad money measure could be "subject to enough instability to reduce its usefulness," the report said.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director P Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753 Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Bradley P Johnson Telephone +46 8 791 2345 Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping


Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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PARTY CONGRESS

## Greens vow to play a more assertive role

By Uta Harnischfeger in Frankfurt

Germany's Green party has vowed to renew its traditional policies and play a more assertive role in government.

At an emotional congress at the weekend the party tried to come to grips with recent political setbacks and a sharp drop in popularity since it entered the "red-green" coalition with the Social Democrats last year.

Joschka Fischer, foreign minister, called on the party to halt its downward slide by combining "vision with realism" and by once again becoming a motor for reform.

Two of the main policies pressed by the Greens since they joined the government in October, the phasing out of nuclear power and the dual nationality issue, have been delayed and will be watered down.

Traditional Green issues centre on pacifism, ecology, a strong opposition to nuclear energy, and civil rights.

This weekend's special four-hour debate on the "state of the party" was also sparked by the Greens' four-percentage-point loss in the February ballot for the state parliament of Hesse, traditionally the party's heartland.

The conference, in the east German city of Erfurt, had originally been called to debate the platform for the June elections to the European Parliament and to finalise a list of delegates.

Emotions ran particularly high after Mr Fischer, the party's most popular politician, had caused an outcry from the so-called fundamentalist faction by calling for a radical reform of the party's egalitarian structure.

The 650 delegates who attended the conference felt this was the wrong time to deal with the party structure and called Mr Fischer's proposals a diversion from the Greens' real problems.

Under current party structure, the Greens do not allow members to hold positions both in the party and in government and each party position, such as the chairmanship, is split between two people.

They also insist on a balance between male and female representatives.

The party vowed to be tougher and more assertive towards its larger coalition partner, the Social Democrats.

Antje Radcke, one of the party's two chairpersons, called on the Greens to be more positive and give up the "killjoy" image created as a result of attitudes such as those towards car drivers.

Andrea Fischer, one of the party's three ministers, who is in charge of health care, rejected criticisms that the party represented minority interests.

She called on the Greens to be clearer in communicating their demands and their platform.

"We have a full range of proposals for almost every issue, particularly when it comes to reforming the financial and social system. Instead, we let the SPD drag us down with their internal debates between traditionalists and modernists," she said.

The first big test for the Greens' new assertiveness will come on Tuesday when Otto Schily, SPD interior minister, will put forward a watered down version of the government's initial proposal to make dual nationality widely available.

Joschka Fischer: called for 'vision with realism' AP

## Viag chief voices tax plan threat

By Uta Harnischfeger

The head of Viag, the German utilities company, is threatening to walk out of the talks between government and industry on nuclear power and to move parts of its business abroad if the government does not modify its tax reforms.

The threat by Viag's chairman, Wilhelm Simson, is the latest protest by German companies over the government's tax reform plans, approved by the lower house of parliament, the Bundestag, last week. The proposals will hit insurance and utilities groups in particular as their reserves set aside for insurance claims and catastrophes will be taxed. The law will be retrospective to January 1.

Since German utilities have set aside about DM50bn (€25.6bn, $28.1bn) in reserves, they would have to pay DM25bn retrospectively, Mr Simson told the German weekly magazine Focus. "If Red-Green insists on this... then I consider the consensus talks as failed," Mr Simson said, referring to the SPD-led government. He threatened to "closely consider the possibilities for Viag to move certain divisions abroad". He also said he would dispute the tax law's retrospective nature at Germany's Karlsruhe-based Constitutional Court.

Tomorrow's second round of talks will focus on a timetable for closing Germany's 19 nuclear power stations.

## French census agents go out for the count

First survey of population for nine years will give short-term employment to 115,000 and generate 640 tonnes of paperwork

By David Owen in Paris

Today is a big day for French statisticians: the nation is carrying out its first population census for nine years, and its last of the 20th century.

From Cayenne to Calais, 115,000 census agents will start to fan out across the national territory in the sort of methodical, large-scale exercise at which the centralised, Jacobin state normally excels.

By April 3 the 640 tonnes of paperwork that the ritual is expected to generate should have been collected, and by September, the first estimates should have started to appear.

Definitive results are to be published in the first half of 2001. The cost is put by Insee, the national statistics office, which is organising the process along with the town halls of France's 36,600 communes, at FFr1.2bn (€183m, $200m) or about FFr20 a head.

The standard forms consist of a four-page "housing sheet" for each household and a two-page "individual bulletin" for each person living in France during the census period.

To a foreign eye, some of the questions regarding employment and household amenities (Do you have a reserved parking place?) appear excessively detailed. But Insee says the housing-related questions are actually less detailed than in previous years.

The census will provide welcome, if temporary, work for substantial numbers of people. Insee says census agents tend to fall into four classic categories: students, pensioners, town hall employees and the unemployed.

"Mayors often take advantage of it to give a hand to the unemployed."

Agents are paid by completed questionnaire and can expect to earn about FFr3,000-FFr4,000 in all, on average.

A certain preference is given to local people, especially when a neighbourhood has a high concentration of non-francophones and possible comprehension problems are expected.

**The first modern-style census in France was conducted under Napoleon in 1801**

For the first time, completed questionnaires are to be fed into an automatic scanner.

Promotional literature concerning what is, after all, a compulsory exercise is heavily larded with explanations of how the census will benefit respondents – "The information it provides is indispensable for rational decision-making in all areas of social life," it claims.

Nevertheless, Insee says, ensuring compliance is not really a problem.

This is borne out by the low level of related fines, which range from FFr30 to FFr250.

"One principle of the census is we don't ask if your papers are in order," says an Insee official.

The first modern-style census in France was conducted nearly 200 years ago under Napoleon in 1801 and put the French population at about 33m – the 1990 figure was 56.6m. The exercise beginning today will be the 33rd.

Insee says that, in practical terms, the "difficult" areas are not economically run-down neighbourhoods in the inner cities and suburbs, but rather "the chic ones where people are working until 10 o'clock at night".

But in an exercise which is also being conducted in Guadeloupe, Martinique, Réunion, Saint-Pierre-et-Miquelon and French Guiana, it is hard to escape the conclusion that the biggest challenges to census agents will come outside the French mainland.

French Guiana, for example, has in recent years experienced a substantial influx of often clandestine immigrants from neighbouring countries, attracted by a statutory minimum wage set at the same level as on the French mainland.

Getting a realistic idea of the true population of this jungle-dominated wedge of the South American land mass will, one suspects, be difficult even for the enviably resourced and highly motivated French state.

## Italy rules out 'inopportune' fiscal squeeze

By James Blitz in Rome

The Italian government yesterday ruled out introducing an emergency budget this year, despite indications that it is now certain to miss its deficit target for 1999.

After a tough report by the Bank of Italy which indicated that the country could not meet its pledge to bring the deficit down to 2 per cent of gross domestic product this year, Carlo Azeglio Ciampi, the Treasury minister, said it would be "inopportune" to introduce an emergency fiscal squeeze that would further damp Italy's sluggish growth prospects.

His comments followed publication of the Bank of Italy's twice-yearly bulletin, which raised concerns about the economic outlook for Italy and questioned the extent to which its public finances were under control.

The bank stated with more emphasis than it has done in recent weeks that growth should be in the area of 1.5 per cent this year, as long as government policies remain unchanged.

It said the 2 per cent target set by the government could not be met without a further fiscal squeeze. This was because of lower than expected growth and the impossibility of reintroducing one-off measures which prevented the 1998 deficit coming closer to three percent of GDP.

One of the most striking features of the report was the extent to which the central bank believes Italian companies are shifting investment outside Italy because of high non-wage costs and rigid labour rules inside the country.

It said Italian companies made new investments overseas equivalent to L29,000bn (€14.9bn, $16.4bn) in 1998, sharply up from L20,000bn the previous year. Meanwhile, the value of investments by foreign companies in Italy fell last year, declining to L5,250bn from L6,830bn in 1997.

These figures will fuel the growing debate over whether the absence of structural economic reforms is forcing northern Italian companies to export their production overseas rather than set up factories in the impoverished south of the country.

Piero Fassino, the minister for foreign economic relations, admitted at the weekend that companies were discouraged from investing in Italy because of low skills among the workforce, poor infrastructure, labour market rigidities and the high tax burden.

However, Mr Fassino insisted that many Italian exporters were choosing to make capital investments overseas to bring production closer to the markets that they were seeking to enter.

● Dominique Strauss-Kahn, the French finance minister, said yesterday that the French economy would expand by less than 2.7 per cent in 1999, AP-Dow Jones reports from Paris. The increase of France's gross domestic product will be "below" 2.7 per cent because of a "rather bad first quarter", Mr Strauss-Kahn said in a television interview.

### NEWS DIGEST

HAIDER'S FREEDOM PARTY

### Austrian far-right makes gain in regional poll

Austria's governing coalition of Social Democrats and conservatives suffered a setback yesterday when the far-right opposition leader, Jörg Haider, won a significant victory in the regional poll in his home state of Carinthia.

Mr Haider's Freedom party got 42 per cent of the vote, a gain of 9 percentage points, which made it for the first time the biggest party in the state. The Social Democrats fell 4.5 points to 33 per cent, for second place, and the conservative People's party lost 3 points to 21 per cent, despite the popularity of its leader, Christof Zernatto, who has been governor for eight years.

Mr Haider is now the clear favourite for the governorship, but he needs the votes of one of the other two parties. The national leaders of the Social Democrats and the People's party had vowed to block Mr Haider from regaining the post, which he lost in 1991 after praising the "orderly employment policies" of Nazi Germany. But the size of his victory might change their minds.

The Freedom party also did well in in Salzburg and the Tyrol, despite a string of corruption scandals and internal party conflicts, which it was thought would dampen Mr Haider's electoral prospects. **Eric Frey, Vienna**

CHECHNYA KIDNAPPING

### Russia evacuates officials

The Russian government yesterday evacuated its remaining officials from the troubled breakaway Caucasian republic of Chechnya following the kidnapping of a top civil servant on Friday.

Officials have threatened tough action in the wake of the capture of Maj Gen Gennady Shpigun, the Russian interior ministry's representative, who was taken hostage by gunmen on Friday as he boarded an aeroplane to Moscow.

The action is the latest in a series of incidents in recent months, including the kidnapping of President Boris Yeltsin's representative to Chechnya last year and the beheading of four telecommunications employees – three Britons and a New Zealander – in December.

Last week, gunmen robbed the National Bank of Chechnya, stealing Rbs1m, and separately kidnapped the deputy chairman, Adnan Barzukayev, while on his way to work in the capital Grozny. **Andrew Jack, Moscow**

KHMER ROUGE LEADER

### Troops capture Ta Mok

Ta Mok, the ageing military leader of the now defunct Khmer Rouge guerrilla group, was captured by Cambodian government troops at the weekend and will be charged in connection with his role in leading the regime that was responsible for the deaths of as many as 2m Cambodians in the mid-1970s.

Known as "The Butcher" for his cruelty but commanding near-blind loyalty from his followers, Mr Ta Mok was the last Khmer Rouge leader unaccounted for before his capture in the jungle near the Thai-Cambodian border.

Pol Pot, supreme leader of the Khmer Rouge, died last year, a number of mid-level officials occupy military posts in the national army, and the rest of the top leaders have "defected" to the government and live in a zone controlled by Ieng Sary, former Khmer Rouge foreign minister.

Mr Ta Mok would become the first Khmer Rouge leader to stand trial in person. His arrest further complicates the controversy surrounding an attempt to bring the top 20-30 Khmer Rouge leaders before an international tribunal on charges of genocide, as recommended last month by a United Nations panel. Hun Sen, prime minister, while not ruling out such a proposal, has said he does not want to risk renewal of civil war in order to prosecute Khmer Rouge leaders. **Ted Bardacke, Bangkok**

NORTH KOREA

### Local elections held

North Korea yesterday held local elections in an effort by its leader, Kim Jong-il, to strengthen his political base at the grassroots level while the nation suffers a severe famine and economic collapse.

Mr Kim, who formally succeeded his father Kim Il-sung as North Korea's Great Leader last September, has been consolidating his power since his father's death in 1994 by appointing a younger generation of officials loyal to him.

The Communist state claimed that nearly 90 per cent of the public had voted by noon with "high revolutionary enthusiasm" in the tightly-controlled local elections. Voting for deputies to the provincial assemblies was last held in November 1993 and those for city and county officials in November 1991. **John Burton, Seoul**

COLOMBIAN MURDERS

### Guerrilla group denies killings

Colombia's largest left-wing guerrilla group yesterday denied responsibility for the murder of three US citizens in Colombian territory last week. Comandante Ariel, of the Revolutionary Armed Forces of Colombia (Farc), said his group had no interest in killing the US citizens, and blamed rightwing paramilitary groups for the crime.

The three US citizens, who were working with an indigenous group in Colombia, were reported kidnapped by the Farc just over a week ago. Their bodies were found riddled with bullets in north-western Venezuela after being assassinated in Colombian territory.

Analysts fear that if authorities find the Farc guilty of the murder, an incipient peace process with the Colombian government is almost sure to come to an abrupt end. **Adam Thomson, Bogotá**

SHARE FRAUD TRIAL

### Portugal jails UK broker

A Portuguese court has sentenced a British investment broker to nine years in jail after finding him guilty of charges relating to an international share fraud.

David Lowry, a former law professor, was convicted of fraud, criminal association, falsification of documents and the misuse of databases for his part in the running of Paramount Portugal, a Lisbon-based share sales operation. The sentence was longer than the eight-year prison term sought by the prosecution. A defence lawyer said Mr Lowry, 54, would appeal. He has already begun an appeal against fines totalling Es200m (€1m, $1m) levied by Portugal's securities market commission against himself and Paramount.

Mr Lowry was detained almost two years ago on suspicion that Paramount was defrauding international investors with telephone sales of US shares that turned out to be practically worthless. The prosecution said several hundred investors had been swindled out of million of dollars. Charges were also brought against eight other US, Hungarian and Canadian citizens who have not been detained. **Peter Wise, Lisbon**

# US security too lax, say senators

By Stephen Fidler in Washington

The Clinton administration was criticised yesterday by senior Republican lawmakers for failing to act forcefully to combat espionage by China.

Richard Shelby, chairman of the Senate intelligence committee, denounced "lax attitudes toward national security" in US national laboratories and elsewhere. "The attitude of too much openness is not paying off for us. It's paying off for countries like China and others in the world, who are continuing to try to get our secrets and obviously are getting some," he said on NBC Television's Meet the Press.

He said: "We've been prodding the administration to do more to tighten up security... It will damage, if it hasn't already damaged, our national security in a big, big way."

Mr Shelby was questioned about reported delays by the Clinton administration in responding to the discovery of the theft of nuclear secrets from the Los Alamos National Laboratory in New Mexico.

A report in the New York Times on Saturday detailed what it called "delays, inaction and scepticism" in the administration's response to the discovery in 1995 of an alleged theft in the mid-1980s of design information about the W88 nuclear warhead. Such information would provide China with help in the miniaturisation of its nuclear devices, allowing it eventually to equip its nuclear weapons with smaller, multiple warheads.

The theft on behalf of the Chinese government by an American scientist working at the Los Alamos national laboratory in New Mexico had been previously reported and confirmed by administration officials. But the New York Times report suggested the administration sought to minimise its response to preserve its "strategic partnership" with China, an allegation administration officials denied.

Trent Lott, the Senate majority leader, told Fox News Sunday programme: "Congress is going to have to toughen up in dealing with the administration, particularly when it comes to China and the violations that occurred there."

In Beijing, Tang Jiaxuan, China's foreign minister, told a news conference: "The report the New York Times printed is very irresponsible. It is also without basis."

Mr Shelby said that Zhu Rongji, the Chinese prime minister, who is due to visit Washington next month, should be told: "We won't engage you. We want to trade with you, but we're not going to look the other way if you're going to conduct espionage in this country."

The disclosures come a few weeks ahead of publication of a report from the House of Representatives select committee, chaired by Christopher Cox. The report will call for a shake-up of counter-intelligence efforts to correct a weak US intelligence response to Chinese efforts to acquire sensitive US technology and poor information sharing within the US government.

# Head of Japan's Economic Planning Agency puts his job on the line

Taichi Sakaiya has changed tune and predicted an upturn in the economy, offering to resign if proved wrong. **Gillian Tett** asks whether he is pumping out propaganda

When Taichi Sakaiya was appointed as head of Japan's Economic Planning Agency (EPA) last July, it briefly seemed that the government had swallowed a truth pill.

For although EPA had a reputation for pumping out optimistic propaganda, Mr Sakaiya, an outspoken maverick, arrived warning that the Japanese economy faced an "abyss" and admitting EPA's official forecasts were wrong.

This month, however, Mr Sakaiya has joined the optimists. In an interview with the FT, the former civil servant and novelist turned cabinet minister is now insisting that the economy will grow in 1999, and has offered to resign if proved wrong. "I am convinced the economy will grow by 0.5 per cent or more in 1999," says Mr Sakaiya, who was selected by Keizo Obuchi, prime minister, to give a "new look" to the EPA.

This *volte-face* has created a striking perception gap between the US and Japan. Lawrence Summers, US treasury secretary, for example, publicly declared last month in Tokyo that the outlook for the Japanese economy appeared to be worsening, not improving. "Prospects for Japan now appear worse than they did a few months ago, with forecasters expecting another year of negative growth in 1999 and the IMF and private forecasters predicting a decline in prices," he said.

But Mr Sakaiya shows no sign of withdrawing his resignation pledge yet. And the question intriguing the markets is whether Mr Sakaiya's stance reflects genuine signs of an impending upturn or simply indicates that the government is changing its policy tack?

There is certainly good reason to be cynical. Last year, the government wanted to win public support for massive spending packages by drawing attention to the economy's woes. This year, it seems Mr Obuchi has a different objective.

The ruling Liberal Democratic party will face elections next year and the party's traditional prescriptions for solving economic problems – implementing spending packages – now look unsustainable. "The LDP is running out of policy options to create growth," says one western finance ministry official. "It is trying to create a recovery by talking everything up instead."

But Mr Sakaiya, who used to be known as a government critic, vehemently denies that he is simply pumping out propaganda. "Of course, I am aware that positive statements I am making have the effect of encouraging the market, but I do consider that real improvements are being made in the economy," he insists.

Furthermore, he says his optimism is grounded in firm analysis. For although he estimates the economy shrank by at least 2.2 per cent in fiscal 1998, he points out the government has unveiled a series of measures to stop this downturn. These include a Y24,000bn ($202bn) stimulus package and a Y60,000bn financial reform package.

"I used to be negative because I was critical of the old cabinet's policy. But the reason I have become [optimistic] is that the Obuchi cabinet is implementing the measures I wanted to see," he says. "Although we had some concerns about a deflationary spiral last October, the economy is recovering."

Such arguments win sympathy in some quarters, particularly since some of the recent economic data has been slightly more encouraging. Between December and January, for example, industrial production rose a seasonally adjusted 0.8 per cent, while inventories fell 1.7 per cent, and household spending stabilised. "In the short term, Mr Sakaiya may well be right – the first half of this year does look better," says Ron Bevacqua, economist at Merrill Lynch.

But Mr Bevacqua, like most other economists, is also forecasting that any recovery will vanish in the second half of the year. More strikingly, though, many of Mr Sakaiya's own staff at the EPA and the door Ministry of Finance next door, are now increasingly pessimistic about the economic outlook. "Mr Sakaiya was very brave to make that resignation offer," says one finance official, who privately predicts the economy may shrink this year.

Cynics might retort that the Japanese electorate has short memories. But the timing of Mr Sakaiya's pledge could be critical: the final data for fiscal 1999 is likely to emerge around the summer of 2000, or around the likely date for the next elections.

"If the government cannot deliver it will be a big negative among the public at the next election," Mr Bevacqua says. "It looks as if they have backed themselves into a dangerous corner." There may, in other words, be considerably more than Mr Sakaiya's career hanging on the "truth" of his prediction next year.

Taichi Sakaiya: says the economy will grow by 0.5 per cent or more

# China warns of missile threat to sovereignty

By James Harding in Beijing

Beijing yesterday renewed its warnings to Washington over the possible development of a US missile defence system in Asia, suggesting that the inclusion of Taiwan in the project would constitute an infringement of China's sovereignty.

China has in the past pledged to defend its sovereignty with force but Tang Jiaxuan, the foreign minister, stopped short of any explicit commitment to use the military if Taiwan participated in the US-led regional defence shield. However, he said: "If some people intend to include Taiwan under theatre missile defence (TMD), that would amount to an encroachment on China's sovereignty and territorial integrity." He added that would prompt a "strong reaction" from the Chinese government and the people.

Lee Teng-hui, Taiwan's president, said in an interview with the FT last week that the Taiwanese government was interested in participating in the proposed theatre missile defence.

TMD is only at an early design stage, but the possibility that it could include Taiwan, which has been at loggerheads with Beijing since the island split with the Communist mainland 50 years ago, has prompted a series of increasingly bitter comments from China.

Speaking to journalists at the Great Hall of the People in Beijing, Mr Tang also offered a signal of progress on China's bid to join the World Trade Organisation.

"Both China and the United States are prepared to work continuously to strive for an early agreement to be reached on China's accession to the WTO," he said. But he cautioned that "there are still some important differences between the two sides".

Charlene Barshefsky, the US trade representative, visited Beijing last week to try to build a compromise as part of the intensifying efforts to reach a deal on the WTO when Zhu Rongji, China's prime minister, visits Washington next month. Mr Tang said the meetings produced "important progress and were constructive".

He also said a confrontational approach to the issue of Chinese treatment of human rights would be futile. "If somebody attempts to table an anti-China draft resolution again this year in Geneva [at the UN Human Rights Commission], then I think the outcome will not be different than the previous seven times."

"There will be no way out if you replace dialogue with confrontation," he said.

# Dhaka refuses to approve plant

By David Chazan in Dhaka

Dhaka has refused to give final approval to the biggest private foreign investment in Bangladesh, the KAFCO fertiliser plant, built with nearly half a billion dollars in World Bank loans.

The controversial project was negotiated by the government of the former military leader, General Muhammad Hussein Ershad, who was tried and jailed for corruption. The present government says the plant has a dismal service record, with many working days lost because of breakdowns.

Much of the equipment installed in the factory by the general contractors – the Japanese companies Marubeni and Chiyoda, which are also shareholders in the project – is said to be of Romanian or east European origin, and the government says it has failed to perform adequately.

At a meeting yesterday between shareholders in the project, representatives of the World Bank's private-sector arm, the International Finance Corporation (IFC), and the Bangladeshi commerce and industry minister, Tofail Ahmed, agreed the financing of the deal should be restructured and to hold an independent technical audit to determine whether the equipment is up to standard. There will also be a review of the original agreement, under which the fertiliser plant buys natural gas at below-market prices. The plant converts natural gas into fertiliser.

# Brazil, IMF agree Real stability plan

By John Barham in São Paulo

Brazil and the International Monetary Fund have agreed new rules governing the central bank's intervention in foreign exchange markets to stabilise the value of the Real.

The currency, which lost 40 per cent of its value after floating in January, began to recover at the end of last week. The central bank will also pursue inflation targets instead of its previous fixed exchange rate policy.

The IMF is today expected to recommend restarting a stalled lending programme from the country's $41.5bn rescue package. Lending is expected to resume in April with disbursement of a second tranche of $9bn. January's collapse of the Real meant economic performance targets in the previous deal, agreed in November, had to be revised.

Neither side has announced details of the new agreement. However, one of the main targets is expected to be a larger primary budget surplus target.

Pedro Malan, finance minister, and Arminio Fraga, the new central bank president, are to visit the world's main financial centres this week in an attempt to rebuild international confidence in Brazil.

The abrupt resignation on Friday of Joel Rennó as president of Petrobrás, the national oil company slated for partial privatisation this year, should make their task easier. President Fernando Henrique Cardoso is expected to appoint a political ally to head Petrobrás, Brazil's biggest company. The government and Mr Renno had disagreed over liberalisation of the country's oil industry and over internal reforms at Petrobrás.

The government plans to sell 31.7 per cent of its common stock and 9.2 per cent of its preferred shares in Petrobrás this year, cutting its stake to just over 50 per cent of voting stock. The deal will require Petrobrás to adopt stringent US accounting standards.

Brasilia is also likely to bring Petrobras, for years a law unto itself, under closer supervision. Mr Renno and senior executives held seven of the 10 seats on the board of directors, limiting outside supervision of the company. In spite of this, Mr Renno is credited with controlling costs, increasing production

**Fund expected to recommend restarting lending programme**

and signing exploration and production deals with international oil companies.

Mr Renno, the longest serving head of Petrobrás was expected to quit before Mr Cardoso was sworn in for a second term on January 1. However, he left before the government could find a replacement for him. Mr Cardoso has indirectly proposed Luiz Carlos Mendonça de Barros, a confidant and former communications minister, although his name could meet heavy political resistance. He resigned in November because of his involvement in a controversial plan that artificially boosted the value of the Telebrás telecommunications monopoly, privatised last July for $18.92bn.

Other contenders for the job include a former social security minister, the former president of Banco do Brasil, the government-owned bank, and a former governor of Rio de Janeiro state.

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**CENTRAL AMERICA VISIT** PRESIDENT TO PRESS BENEFITS OF SPEEDY AID ON TOUR OF HURRICANE DEVASTATION

# Clinton offers to lift trade curbs

By James Wilson in San Salvador

Trade, aid and immigration will dominate US President Bill Clinton's agenda as he travels through Central America over the next four days to see the devastation caused by Hurricane Mitch.

Mr Clinton arrives in Nicaragua today having recently announced a further $956m aid package for the region. He is also offering to lift some US trade barriers to allow more Central American exports.

Mr Clinton is anxious to press the domestic benefits of giving aid quickly, to promote trade and regional stability. Sandy Berger, the US national security adviser, said US exports to Central America had trebled since 1990 to $7.5m a year and that the US wanted to sustain trade and investment.

"We have a clear interest in lending a hand," said Mr Berger.

But Central American leaders, who will meet Mr Clinton on Thursday in Guatemala on the last leg of his trip, will look for assurances that the promised help can be delivered. Last week the US Congress stalled approval of the extra aid money, delayed by Republican demands that offsets be found elsewhere in the budget. Democrats criticised the demands.

Contaminated catch: a young Nicaraguan girl holds fish caught in floods on the Pan American Highway. The water has been polluted by sewage pipes broken by Hurricane Mitch AP

Previous efforts to give enhanced trade benefits have also foundered on lack of consensus between House and Senate.

Helping the region to recover quickly is also seen as a way of stemming a new wave of immigrants across the US border. Poverty was driving large numbers of Central Americans to migrate illegally to the US even before the hurricane.

Mr Berger said: "We want to keep the region growing, so people feel that they can stay and build their future there, rather than increase the pressure to migrate as work diminishes."

However, the US is to renew deportations of Salvadoreans and Guatemalans, for whom a temporary reprieve granted after the hurricane expires today. Central American leaders are expected to call for a further reprieve.

On trade, Mr Clinton is proposing to allow some textiles and clothing from Central America and other Caribbean Basin Initiative (CBI) countries to enter the US free of duty and quotas. That would be of greater benefit than the 50 per cent duty reduction proposed when CBI enhancement was last considered.

For the CBI's non-textile products, Mr Clinton wants to cut the tariff rate to the same level applied to Mexico under the North American Free Trade Agreement. CBI countries have complained of losing business and investment to Mexico since Nafta came into effect.

However, the benefits proposed by the Clinton administration would only apply from October this year until June 2001. Central America would like permanent Nafta parity. Around half of the region's trade is with the US.

October's hurricane left 18,000 dead or missing and caused at least $7bn of damage.

Mr Clinton's trip – delayed last month by the dénouement of his impeachment trial – is another sign of the high profile the US is attaching to the Central American recovery effort. Hillary Clinton and Tipper Gore, wife of the vice-president, visited the region immediately after the storm.

Brian Atwood, director of the US Agency for International Development, said Hurricane Mitch was the largest natural disaster the US government had handled. "From 1964 through last year, we had spent a total of $297m on various disasters in Central America. This single disaster we've spent $305m," he said.

# Funds threat to US biotech industry

By David Pilling

The US biotechnology industry is about to make a scientific breakthrough as significant as the first Apollo space mission, yet it faces a crisis of investor confidence that threatens to starve it of funds, according to a new report from Ernst & Young, the accountants.

Decoding the 80,000 genes in the human body, which should be completed within a few years, "ranks alongside Neil Armstrong's moon walk in the list of historic events", says the annual report which is released today. Several Californian biotech companies will have played an important – some would say a decisive – part in that endeavour. Moreover, the US industry – barely 20 years old – has produced 80 drugs, many of them radical breakthroughs in the treatment of human disease.

Yet equity markets, which deserted biotechnology shares last year, are "increasingly unwilling to recognise and reward value being created during the development process of a biotechnology product". Unlike soaring internet stocks, biotech companies trailed badly last year in what Ernst & Young describes as their worst performance in years. In the US, 14 initial public offerings (IPOs) were pulled.

"The big question is whether this is simply one of biotech's temporary down cycles or whether it reflects a long-term secular change brought about by investor scepticism towards the sector."

The US biotech industry collectively made a net loss of $5.1bn in 1998 on revenue of $18.6bn. It invested $9.9bn in research and development and employed 153,000 people. By comparison, Merck, the biggest US pharmaceuticals company, made profits of $4.6bn on revenue of $24bn, and invested $1.7bn in R&D. It employs 54,000 people.

That highlights the research-intensive nature of biotechnology companies, which rarely have the the luxury of earnings generated by products. It usually takes 10 years to develop a drug but most biotech companies are at a much earlier stage.

The dour US performance contrasted with continental Europe, 15 years behind America and still in its first flush of enthusiasm, where several IPOs were carried out and hundreds of new companies funded by venture capital. If the investor freeze spread to Europe, it would be difficult for backers of early-stage companies to cash in their investment through stock market flotations, the report points out.

# Mexican party elects leader

By Henry Tricks in Mexico City

Mexico's National Action party (PAN) elected a new leader at the weekend who offered to examine the possibility of a broad opposition coalition to challenge the ruling party in presidential elections next year.

Luis Felipe Bravo Mena, 47, won more than twice as many votes as his rival on Saturday, and was immediately sworn in as party leader. He was backed by Vicente Fox, the state governor who is the PAN's most likely presidential candidate.

The pro-business party has its sights set on the elections in July 2000, which it sees as its best shot yet at ending the 70-year rule of the Institutional Revolutionary party (PRI). In the past week, however, it has been increasingly called upon to unite with other opposition parties behind a coalition candidate, a possibility that would be hard to pull off but is nevertheless a threat to the PRI.

One of the PAN's most powerful ideologues, Diego Fernández de Cevallos, a former presidential candidate, stunned the party convention at the weekend by suggesting an alliance could possibly be headed by a neutral candidate, neither from the PAN nor from its potential coalition partner, the leftwing Party of the Democratic Revolution (PRD).

That would rule out Mr Fox, who is already hard on the campaign trail in his trademark cowboy boots and jeans. It would also eliminate Cuauhtémoc Cárdenas, the mayor of Mexico City, who is the PRD's frontrunner.

Mr Fox was irritated by his colleague's proposal, calling it a "joke". The PRD was more receptive, saying a roster of candidates including Mr Cárdenas and Mr Fox could apply to lead the alliance, with the winning candidate picked in a US-style primary ballot.

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MARKET TURMOIL LESS MONEY FOR NON-BANK CUSTOMERS

# Retrenchment in bank lending seen

By George Graham

A sharp drop in bank lending last year to non-bank customers in the US and in some Caribbean offshore centres suggests an unwinding of leveraged positions in the wake of last summer's financial market turmoil, according to new statistics from the Bank for International Settlements.

The Basle-based institution, which groups central banks from the leading economies, said cross-border loans to non-banks from countries in its reporting area fell by $8bn in the July-September quarter. Credit lines continued to be cut to Japanese customers, but non-banks in the US repaid $7bn of loans, a sharp swing from an average of $27bn of new loans in earlier quarters.

Non-banks also made net repayments in islands known as centres for offshore fund activity, such as the Netherlands Antilles, where borrowers have been reducing their gearing since 1997 and repaid $4.7bn in the third quarter. More modest repayments were also recorded in the Cayman Islands, where new loans had previously been rising.

"Such a swing in business with centres which are host to a number of hedge funds suggests a reversal of leveraged transactions. This retrenchment was less evident in Europe, where cross-border lending continued, albeit at a reduced pace," the BIS said in its quarterly review of international banking and financial market developments, published today.

The BIS's analysis of money flowing between banks showed that Japanese and some continental European banks switched business to the deeper financial markets of London and New York as they rushed to adjust their trading and investment positions after the Russian debt moratorium in August provoked consternation in financial markets.

This may have contributed to a build-up in yen balances in Europe, along with the widespread reversal of "yen carry trades", in which banks and hedge funds borrowed money in yen to finance investments denominated in other currencies.

The BIS said this simple strategy had been persistently profitable for practically the entire period from January 1995 to July 1998, but was thrown off track when the yen appreciated sharply against the dollar at the end of August and again in early October.

The report also highlights the continued decline of Hong Kong as an international banking centre. The external assets of Hong Kong banks fell by $35.5bn in the third quarter and in the space of nine months dropped to $492bn from $600m. This reflects in part a pull-back by Japanese banks which used to channel money back into Japan through their Hong Kong offices.

*BIS Quarterly Review: www.bis.org

# Investor groups to discuss governance with chairmen

By Richard Donkin in London

Some of the world's largest investor groups have been invited to meet the heads of multinational companies in London next week in an attempt to establish international guidelines on corporate governance.

The meeting, organised by Egon Zehnder International, the headhunting firm, has been arranged to develop the work of its Global Corporate Government Advisory Board, a group comprising 20 international company heads from 16 countries which met for the first time a year ago.

Board members include Percy Barnevik, chairman of Investor AB, Cor Boonstra, president and chairman of Royal Philips Electronics, Ratan Tata, chairman of Tata Sons, Marc Viénot, honorary chairman of Société Général, Jürgen Schrempp, chairman of the board of management at Daimler-Chrysler, Yoh Kurosawa, chairman of the Industrial Bank of Japan and Sir Adrian Cadbury, author of the Cadbury report on corporate governance.

Kenneth Taylor, the Chicago-based Egon Zehnder partner who put together the advisory group, said the meetings were designed to allow institutional investors and the heads of large companies to discuss areas of common interest.

"This will be the first time that such a powerful group of corporate leaders and institutional investors have come together to discuss corporate governance," he said.

Egon Zehnder has been working closely with Ira Millstein, senior partner of Weil, Gotshal & Manges, a leading expert on international corporate governance who acts as counsel to the board.

One of the main aims of the board meetings, say the organisers, is to create a set of international corporate governance guidelines.

# Sheikh Hamad takes over as Bahrain's ruler

By Robin Allen, Gulf Correspondent

Sheikh Isa Bin Sulman al-Khalifa, the 66-year-old ruler of the tiny but strategically important Gulf state of Bahrain, died suddenly of a heart attack on Saturday.

Sheikh Isa's 49-year old eldest son Sheikh Hamad Bin Isa al-Khalifa, the crown prince and heir apparent since 1964, immediately succeeded him.

Sheikh Hamad inherits an island-state full of contradictions: one with an open attitude to western social behaviour coupled with absolute political autocracy, blanket censorship and a fawning press; a notionally free-market economy where power is nevertheless monopolised by the ruling family and its nominees; and a nation-state which, according to one senior western diplomat, has the obsessive pride of a self-consciously small independent state which nevertheless still relies on a former British colonial policeman to run its security apparatus.

The al-Khalifa ruling family belongs to the mainstream Sunni sect of Islam, to which only 30 per cent of Bahrain's national population adhere. The family holds half the cabinet posts and its members chair most public sector organisations.

Sheikh Hamad is commander of Bahrain's defence forces, which include an 8,000-strong army and a force of special forces made up of Bahraini Sunni officers and Sunni police from Jordan, Yemen and Pakistan whose brutality is feared and loathed by Shia villagers.

Internationally, Sheikh Hamad is expected to maintain Bahrain's traditional links with the west, and the US in particular.

Bahrain staunchly supported the US-led coalition which ousted Iraq from Kuwait in the 1990/91 Gulf war. The US has had a naval station in Bahrain since 1948 and it is now the headquarters of the US navy's Fifth Fleet in the Gulf.

The domestic political scene is more complicated and, according to US analysts, much more problematic.

Recent low oil prices and rising budget deficits among all Gulf oil producers have hurt Bahrain, more than half of whose revenues come from gifts of Saudi crude and cash and handouts from Kuwait and Abu Dhabi. Despite these gifts, Bahrain's 1999/2000 two-year budget predicts a deficit 113 per cent higher than that of 1997/98.

The fulcrum of Sheikh Isa's policy to attract investments was maintenance of stability. On the one hand that meant close relations with arch-conservative Saudi Arabia, sealed by the 1986 completion of 25km causeway linking Bahrain with the Saudi mainland. And with Saudi encouragement, Sheikh Isa kept a tight control of power, dissolving the national assembly in 1976 and stamping out all forms of dissent.

But maintaining domestic stability also required speaking softly with a big stick to a large, and growing, majority who felt disenfranchised, and who he intended should remain so.

Sheikh Isa had this gift. But US analysts and senior western diplomats say it remains to be seen whether it is shared by his son, who is however regarded as equally obdurate.

In recent years Sheikh Isa left many aspects of government to his brother, the prime minister Sheikh Khalifa, whose repressive policies have been notable since December 1994, when reform movements swept the island and violent dissent broke out in many villages.

Sheikh Hamad is expected, for the time being at least, to keep Sheikh Khalifa on as prime minister, despite a bitter and well-publicised rivalry going back many years.

According to senior US analysts, the combination could provoke considerable nervousness among Bahrain's Shia majority community.

It is an unfortunate coincidence, they add, that the government should now be putting on trial, after three years in detention, the Shias' public hero and opposition activist leader Abdul Amr al-Jimri.

It is a trial which could spark renewed unrest.

Bahrainis are not the only people with an anxious eye on the next few months.

The Qataris, partners in the club of Gulf Arab monarchs, will, according to a senior western diplomat, be watching developments closely. Sheikh Hamad in 1996 publicly rejected an offer by Qatar to use unemployed Bahraini workmen to work on a causeway to link the two countries, to carry the cost of the entire project, and to pay for the joint exploitation of possible gas reserves in territory disputed between the two.

He has ruled out any compromise settlement with Qatar, whose ruler, also called Sheikh Hamad, and people are now hoping that the new Bahraini emir will mellow rapidly with the complexities of office.

Sheikh Hamad (right), while crown prince, meets Jordan's King Abdullah earlier this year Reuters

# Move to revive Nigerian privatisations

By William Wallis in Lagos

Nigeria's military government has moved to speed its privatisation programme after signs that it was getting bogged down by a turf-war between two government supervisory bodies.

Delays in this important component of economic reform could have scuppered potential IMF support in rescheduling Nigeria's $29bn external debt and securing urgently needed new loans. After almost a decade of stalled reforms, General Abdulsalami Abubakar, head of state, committed himself – shortly after assuming office last June – to a programme which could bring in billions of dollars to Nigeria's telecommunications, power and downstream energy sectors. His stated aim was to make irreversible progress towards the sale of utilities as well as the oil refineries and distribution depots by the time an elected civilian government takes over in May. The inability of the state to maintain its collapsing utilities left him little choice.

But with less than three months before he hands over to the president-elect, Olusegun Obasanjo, his administration has struggled to get the plans off the ground.

Last week a new National Council on Privatisation was sworn in, chaired by Gen Abubakar's deputy, Mike Akhigbe, and including the ministers of finance and planning.

A reform lobby within the administration has been arguing since last year that the existing Bureau of Public Enterprises (BPE) is too autonomous and lacks the political clout and technical knowhow to push the programme through. Bankers and government officials also considered "unmanageable" a list drawn up by the BPE last month for the sale of 37 parastatals.

It is hoped the Privatisation Council will now streamline the plans, attract foreign partners to utilities and provide a timetable and regulatory framework that ensures the sales go through. Vice Admiral Akhigbe on Friday moved fast to sideline the BPE and its chairman Hamza Zayyad.

Bankers say that if the new council keeps moving decisively, it could get close to selling off residual government shares in some of the smaller companies which are already listed on the Lagos stock exchange, while making progress towards the commercialisation and eventual sale of the larger ones.

# IMF sees further scope for rate cuts

By Alan Beattie in London

The UK economy is set to slow slightly more sharply in 1999 than previously thought, giving scope for more interest rate cuts, the International Monetary Fund said yesterday.

But the IMF praised the handling by the government and Bank of England, the UK central bank, of the economy and the decision to grant the Bank independence over monetary policy. Several fund directors said the UK's new macroeconomic policy framework could act as a model for other countries.

The report into the economy, the conclusion to the IMF's annual Article 4 health check, predicts UK economic growth in 1999 will slow to 0.8 per cent from an estimated 2.5 per cent in 1998.

The 1999 forecast is slightly below the IMF's previous prediction of 0.9 per cent. And the balance of risks to this forecast remains on the downside because of uncertainties about the outlook for the global economy, the IMF said.

The slowdown is expected to push up unemployment slightly. On the claimant count measure, which measures those claiming jobless benefits, unemployment is expected to rise to 5 per cent in 1999 from 4.7 per cent in 1998.

But the IMF said the slowdown was a welcome respite from the unsustainable pace of recent years. The strong fiscal position and sound private-sector economic fundamentals meant the downturn in growth should be small and short-lived, it added.

Meanwhile RPIX, the key inflation measure, is expected to remain at the Bank of England's target level of 2.5 per cent in 1999.

The study repeated much of the praise given in the IMF's interim report in December to the changes made to the UK's macroeconomic policy architecture in recent years.

Fiscal and monetary policy had a "clear medium-term orientation guided by the key principles of transparency, accountability and credibility," the fund said.

The report praised the present government's actions while recognising that the first steps were taken by the previous Conservative administration.

The monetary policy arrangements were singled out for support, with the clear and symmetric inflation target having contributed to "timely and judicious changes in policy interest rates".

The UK was now "close to the frontier" of monetary policy transparency, the IMF said.

But there were reservations about the fiscal policy framework. The golden and debt-sustainability rules did not impose clear enough limits on future policies, the report said.

The UK authorities should "adhere to budget plans of sustaining approximate structural balance", it added.

The Treasury said yesterday the IMF's report was a "ringing endorsement" of the government's decisions on Bank of England independence and fiscal transparency. The fiscal rules that had been adopted were the best for the UK economy, the Treasury said.

**EUROPEAN COMMISSION** CLASH LOOMS OVER PLAN TO BRING DRIVERS WITHIN SCOPE OF WORKING-TIME DIRECTIVE

# Taxi trade may face 48-hour week

By Charles Batchelor, Transport Correspondent

On collision course: British taxi drivers are angry at plans that could restrict their working hours FT

The European Commission is on a collision course with Britain's notoriously truculent taxi drivers.

The Commission plans to impose on the drivers regulations similar to the European working-time directive that places a 48-hour limit on the average working week, restricts night-time working and imposes additional paperwork on companies and individuals.

The drivers say the proposals take no account of the long working hours in the taxi trade, and increased regulation would encourage drivers to work illegally.

Any new controls are unlikely to be effective because so many drivers are self-employed, and would be required to monitor their own working hours, taxi drivers' organisations said. But they could give drivers a lot of extra paper work.

The Department of Transport said yesterday there were no restrictions on taxi drivers' working hours.

"These are very worrying and ill-considered proposals," said Stephen Wright, chairman of the London and Southern Private Hire Car Associations, which sets standards for its 300 company members employing 25,000 drivers. "This is a massive issue for the private-hire industry."

Restrictions on night-time working could mean party-goers might not be able to find a cab at 2am.

"On average, over one-third of journeys will be night-time working," Mr Wright said. "Frequently, no other system of transport is available for passengers, and illegal operating may well be the net result of the proposals.

"A lot of the industry works part-time, so how would they work out how long people work? Many drivers work 12-hour days, but they spend a lot of that time parked up waiting to take people from meetings."

More than 150,000 people hold taxi or private-hire vehicle licences in England and Wales. This does not include an estimated 40,000 to 100,000 unregulated mini-cab drivers operating in London. Workers in the transport sector were excluded from the working-time directive, which came into force last October because of their unusual working patterns.

But the European Commission is now working on measures specific to individual sectors that would bring drivers of taxis and private-hire vehicles within the scope of the regulations.

The UK government warned the taxi industry in a consultation document sent out in January that the rules would be even tougher than in other sectors because there was no scope for individuals to work more than 48 hours a week averaged out over four months.

Unlike the working-time directive in other sectors, the transport industry proposals extend to self-employed drivers. "This would be a significant change," the government said. "The proposal would require self-employed drivers to maintain records where working time exceeds certain limits."

Brian Rice, of Dial-a-Cab, one of London's three largest radio-linked cab networks, said the directive would be unenforceable because its 2,000 drivers were self-employed. "We don't stipulate when they work."

The latest move follows reports last month that the Commission was insisting newspaper delivery boys and girls would be entitled to four weeks' paid leave under the regulations.

**PRICING** STUDY 'DEEPLY FLAWED'

# Traders attack EU report on brand imports

By Peggy Hollinger in London

The controversy over the high price of branded goods in Europe intensified this weekend with a stinging attack on a report commissioned by the European Union that suggests eliminating import barriers would have little impact on retail prices.

The Parallel Traders' Association, the lobby group for UK traders that import branded products for resale at a discount, has written to the European Commission saying the report is "deeply flawed".

The report, by the National Economic Research Association, was published last month. Its aim was to determine the economic impact of eliminating the ban on imports of branded products from outside the single market, without the trademark owner's consent. The ban was introduced following a ruling in the European Court of Justice.

In a letter to Mario Monti, single market commissioner, the PTA accuses Nera of ignoring vital information. For example, it claims Nera failed to note trademark laws protect brand owners from the sale of counterfeit goods or those that differ significantly from the product normally sold in a market.

The PTA says Nera "made little or no effort" to contact parallel traders, retailers or consumers. "Therefore it was inevitable the report would side with the brand owners." It also questions Nera's objectivity. "Nera, while conducting its research commissioned by the EU, was also at the same time under contract with the European Brand Owners' Association to conduct a study on their behalf."

John Rhys, Nera's managing director, rejected the comment as "insulting". He said he was aware of complaints from brand owners accusing Nera of bias in favour of parallel importing. However, the purpose of the study was not to judge either way. "We were asked to estimate the overall economic impact across sectors and countries," he said. However, he said the study had revealed some dramatic price reductions could flow from eliminating trade barriers, but only in certain product lines.

The UK government is understood to be keen to ease the restrictions on parallel importing in certain sectors. Kim Howells, competition minister, said the ECJ ruling "was far too proscriptive", but the issue of whether prices were being kept artificially high would have to be dealt with sector by sector.

# Fast-food groups ban GM produce

By John Willman and Richard Tomkins in London

Three of the UK's biggest fast-food businesses have banned products with genetically modified ingredients from their menus, according to a survey published today. Several others are in talks with suppliers about taking similar action.

Asda, the supermarket chain, said yesterday it was also moving towards a complete ban on GM ingredients in its own-label foods, including derivatives from GM products. It has asked its suppliers to switch to GM-free producers.

Concern over GM food is likely to increase today when the House of Commons science and technology committee hears evidence from Arpad Pusztai, a scientist whose research first suggested GM potatoes could damage rats' health. Last month a group of international scientists said Dr Pusztai's findings deserved further investigation.

The survey of fast-food chains by Friends of the Earth, the environmental campaign group, shows three of the 11 with 50 or more outlets believe they are GM-free. Two intend to become GM-free and two are considering the move.

The three that say they are GM-free are Domino's Pizzas, PizzaExpress and Wimpy, the hamburger chain. Domino's is introducing a programme of 33 independent tests on ingredients to check suppliers' assurances that their products are free of GM ingredients.

PizzaExpress said it had no intention of using GM ingredients until they were proved safe. Wimpy said it had been GM-free for more than a year.

Two of the largest UK fast-food businesses – Burger King and KFC – are among those intending to become GM-free. Burger King, owned by Diageo, the food and drink group, said the move was in response to consumer concern.

KFC said most of its menu was free of GM products, including its original recipe chicken. But while the survey said it was to become GM-free, KFC said it was working with suppliers to ensure the removal of genetically modified ingredients "at the earliest opportunity".

McDonald's, the world's largest burger chain and the UK's biggest with 930 outlets, was said by FoE to be considering becoming GM-free. The company said it was impossible to confirm whether ingredients such as soya oil and lecithin were free from GM sources.

# INSIDE TRACK

**PROFILE:** *CHIP REID, CHIEF EXECUTIVE OF BACARDI*

# A spirited strategist

The former Washington M&A lawyer now has his sights set on further expansion of one of the world's leading drinks groups, says **John Willman**

When Chip Reid was chosen three years ago as chief executive of Bacardi, the decision caused something of a frisson among shareholders in the world's fourth-largest drinks company.

For one thing, he was the first chief executive not to be a descendant of Don Facundo Bacardi, the Catalan who founded the company in Cuba in 1862 and whose heirs – almost 500 of them – are still the only shareholders.

For another, he was a mergers and acquisitions specialist in a Washington law firm, with no operating experience in a consumer goods business.

"'They've hired an M&A lawyer and they're going to sell the company', was the reaction," Mr Reid recalls with a characteristic chuckle.

This week the M&A lawyer appeared to confirm those fears when he said he was prepared to consider a public share offering for the Bermuda-based company if it were necessary as a last resort to finance acquisitions. But Mr Reid is not about to sell off the family silver: his aim is to add to a collection of leading international spirit brands.

Bacardi has been able to more than double in size in the past six years by drawing on its own resources, but it is now nearing its capacity to finance further acquisitions. "To exploit the right opportunities, we would consider tapping other sources, including the public equity markets," Mr Reid says.

But he quickly adds: "This will always be a family company with the Bacardi family in absolute control."

Mr Reid, now 50, knows exactly how far and how fast he can go in opening the notoriously secretive company to the outside world. Although he is not a member of the founding family, his connections with the company go back 25 years.

He was an adviser in the creation of a single global holding company in 1992 to unify the five separate – and often warring – operations created after the company's Cuban assets were seized by Fidel Castro's government in 1960. And he advised Bacardi on the $2bn (£1.25bn) acquisition in 1993 of Martini & Rossi, the Italian family-owned drinks group.

The Martini acquisition added new drinks to the portfolio, including vermouth, sparkling wine and William Lawson scotch whisky, and gave Bacardi a formidable European distribution network. It was also the first step in the company's new strategy of becoming the world's leading spirits group, moving away from its dependence on the famous white rum.

Mr Reid has continued that strategy, last year buying Dewar's Scotch whisky and Bombay Sapphire gin from Diageo for £1.15bn. The purchase price seemed steep to many observers, but the Bacardi chief executive says it was worth paying to acquire two "world-class jewels" – Dewar's is the world's seventh best-selling scotch.

He has ambitious plans for the two brands, which he believes will justify the investment. Dewar's – strong in the US, Venezuela and a handful of European countries – will be given a push in other big whisky markets such as Thailand.

There will be line extensions, with older aged versions and a malt whisky. And Bacardi is building a visitor centre near the Aberfeldy distillery in Perthshire – "the spiritual home of Dewar's".

Bacardi can bring focus to brands such as Dewar's that groups with bigger portfolios of brands cannot, says Mr Reid.

"With Diageo, Dewar's was under the shadow of Johnnie Walker in a lot of markets." With Bacardi, it will be the only premium scotch in the sales teams' portfolio.

Then there is the marketing expertise that has made the Bacardi brand one of the world's top 10 in most league tables. Mr Reid says his sales teams are more entrepreneurial, more focused than the competition.

> **'I don't see Bacardi merging with another entity if the family were to lose absolute control'**

"As a family company, we can move quickly," he says. "We showed that with the Martini acquisition, where there were many suitors. There were very intense negotiations in the early summer and then all the European contenders went on vacation. My predecessor invited the sellers over to Nassau, they worked all through August and the deal was done while everyone else was in the south of France."

It was the same last year with Dewar's and Bombay Sapphire. "At the height of the auction, the board met two or three times in special session on the spur of the moment, flying in from Europe and everywhere else to pursue developments. It's a great asset to be able to move quickly."

Mr Reid also likes the longer term perspective possible in a company that does not have to meet stock market expectations every quarter.

"The shareholders have profit expectations and in many respects there is little difference in day-to-day management between us and a public company. But we are able to make investments that will show returns not just in the next couple of quarters but in the medium and long term."

Mr Reid is, however, prepared to consider surrendering such advantages for a public flotation if it is necessary to buy more brands. He expects consolidation to gather speed in the drinks industry, leading to disposals of premium brands to satisfy competition regulators – as with the sale of Dewar's and Bombay Sapphire by Diageo.

Bacardi's main targets would be white spirits such as tequila and vodka where consumption is still growing while dark spirits such as brandy and whisky are stagnating or losing ground.

Last year's acquisition of Dewar's and Bombay Sapphire has left the group with net debt of around $2bn, a level Mr Reid describes as comfortable but "higher than I would like to go". The debt could be paid off from the group's cashflow – more than $300m cash was generated from operations last year – in a few years as was the Martini acquisition. But Mr Reid might have to move sooner.

"There are a lot of opportunities now in the industry that can solidify the company's strength in the years to come. To exploit those, it may be necessary to partner with the public."

The board and the shareholders have accepted that flotation – which could give the company a stock market value of more than $5bn – may be necessary to achieve the group's ambitions. But there are no plans for a share offering at the moment, and Mr Reid hopes it will not be necessary.

One thing is absolutely ruled out, however: Bacardi is not interested in a tie-up with other large drinks groups in the consolidation Mr Reid expects.

"I don't see any possibility of Bacardi merging with another entity under terms where the family would not be absolutely in control."


## Essential Guide to Chip Reid

**Born:** Washington DC, 1948.

**Education:** graduated in economics at Yale; MBA and law doctorate from Harvard.

**Career:** joined Covington & Burling as a corporate securities lawyer in 1976, advising clients on corporate strategy and finance. A partner in 1982, he became head of the firm's corporate and securities practice in 1988.

Appointed Bacardi chief executive in 1996 in succession to Manuel Jorge Cutillas, current chairman and great-great-grandson of the founder. The call came "out of the blue" after a lengthy succession search: it took "half a nanosecond" to accept. But he now says: "I'm just a rum salesman."

**Reason for jumping career streams:** after 20 years as a counsellor, he found he enjoyed advising corporate clients at board level on strategic options. "It was very enticing being offered the opportunity to take off the adviser's hat and put on the principal's."

**Corporate strategy:** aim is "to build a strong company that succeeds and prevails – that is on the buy side rather than the sell side".

In addition to acquiring further brands, new products have been developed to increase market share. These include line extensions such as Bacardi 8, the first premium-aged rum.

**Admired competitors:** Brown-Forman, the Kentucky company that produces Jack Daniels bourbon and Southern Comfort liqueur, for its single-minded focus on building brands. Seagram, the Canadian entertainment and drinks group, for its portfolio of world-class spirits such as Chivas Regal scotch whisky.

**Can stay until:** 2013. "With the grace of God and the grace of our board of directors, my objective is to retire at 65 after taking Bacardi to great heights and building on the work of my predecessors."

**Time out:** lives in Bermuda. Four daughters from two marriages. Loves boating and golf, though with little time for the latter. Enjoys the music of the 1960s and going to the cinema.



LUCY KELLAWAY

# Defeated by VICTORY

Motivation may be what managing is all about but this advice on how to give the team some spark went off like a damp squib

Motivation is the big one. Getting people to pull their fingers out – it is what being a manager is all about. Yet for all that, few managers are any good at it; fewer still have ever been shown how.

But now along comes ex-McKinsey man Max Landsberg simultaneously creating and filling this gap in the market with a book, *The Tao of Motivation: Inspire Yourself and Others.*

The word Tao put me off at first, but I decided to suspend judgment. "It's a motivational read!" Archie Norman, the chairman of Asda says on the back cover. "Highly practical advice" says the director of training and development at Goldman Sachs – though I'm not sure what he knows about it, as I thought the sole motivational force at Goldman was money.

According to Mr Landsberg, motivation is a basic skill anyone can learn, and once learnt it can be applied to yourself, your family, your friends, anyone. "You have it," the book says. "It's in your hands."

So I decided to give it a try with my team.

Step one is easy. It involves copying into your diary a flow diagram which describes Mr Landsberg's "VICTORY" model. VICTORY is the key to motivation. It stands for vision, impetus, confidence, taking the plunge, obstacles, responding to feedback, and you. My slimline diary wasn't quite big enough for all the arrows, but I did my best.

The next step is to create the vision, which has to be precise and, well, visionary. After some false starts, I came up with: *I have a dream: to create by next month a happy, laughing team, committed to lifelong learning, based on the principles of helpfulness, politeness and mutual respect.*

I was quite pleased with this, and put it to the team with whom I was supposed to be sharing the vision.

My deputy did not look up from the article he was reading. "Did I tell you I'm out tomorrow night?" he said. One team member turned the TV on. "I'm thirsty," another whined.

Maybe my vision was too complicated. I tried again. "*I have a dream. To eliminate all shouting and all answering back starting today.*"

This produced a slight improvement, at least they seemed to know what I was talking about, though there was scant sign of "buy in". "*You're* always answering back," one of them said accusingly.

*I decided to go with it* anyway and went on to the next stage: impetus. This involves finding a profound motivating force that is even more powerful than the vision. I tried to appeal to my team's sense of common good: wouldn't it be nice if we weren't at each other's throats all the time? No one disagreed, but they didn't look particularly keen either.

The next bit is to take the plunge. The moment is meant to be chosen with care. But as all moments with my team are tricky, I decided there was no time like the present. So here goes: no shouting or answering back from now on, OK? "Who says?" was the reply.

For the VICTORY model to work, feedback is critical. Tip-top motivators must "learn to enjoy the more bitter fruits of feedback from their less successful labours to enhance their skills".

I jotted down all the feedback I received in the first hour. "You like her more than me." "I don't like your shoes." "Why do you put on a funny voice when you talk on the telephone?"

The new plan had not been in operation long when one team member snatched a free Burger King plastic toy from another. "Give!" the other shrieked, administering a wallop.

"Please give it back," I said, my voice unusually calm. The fighters took no notice.

This might be the sort of event Mr Landsberg has in mind when he says: "Events happen, which may appear adverse."

In these situations you must be disappointed rather than angry. You must always learn something.

And I *did* learn something at the end of the session: that VICTORY might work for Archie Norman, but it is not for me.

* * *

A postscript from the real live world of work. I put my card into the brand new vending machine in the office and selected Maltesers. The machine took my money and edged the little red packet towards me. But then it had second thoughts and decided not to let me have the sweets. That's what I call demotivation.

* * *

Back to the subject of families: another euphemism for firing people. A newly merged company recently made a video to spell out the implications to employees. The managing director explained: "I like to think of all our staff as family . . . and some of the members of the family will be leaving home."

هكذا من الأصل

**TECHNOLOGY** SPEECH RECOGNITION

# A system that is as good as its word

Speaking to a computer could become commonplace, writes **Geoff Nairn**

Speech recognition has come a long way in a short time. A technology once plagued by poor performance and high costs has improved dramatically in recent years, and talking to a computer, either directly or over the phone, could become commonplace in the approaching digital age.

For many, speech recognition will be forever associated with Hal 9000, the talking computer in Stanley Kubrick's classic film *2001: A Space Odyssey*. But building a Hal-like computer that can understand the words and context of any conversation – "unconstrained speech" – is a Herculean task.

"Just look at how much effort was required for a computer to beat a grandmaster at chess," says Stuart Patterson, president and chief executive of SpeechWorks, a US start-up developing speech recognition for customer service applications. "Researchers have been working on unconstrained speech recognition for many years, but a computer similar to Hal is still decades away."

Speech recognition technology works best when the vocabulary is limited and the dialogue follows a script. A typical application is phone banking where the dialogue is fairly predictable. Nevertheless, the system must understand a wide variety of accents and differentiate between "$40" and "$14", a problem exacerbated by the poorer quality of telephone speech.

SpeechWorks' technology draws on research licensed from the Massachusetts Institute of Technology, where speech recognition has enjoyed intense research. But only recently has the technology matured sufficiently to attract commercial interest outside the laboratory.

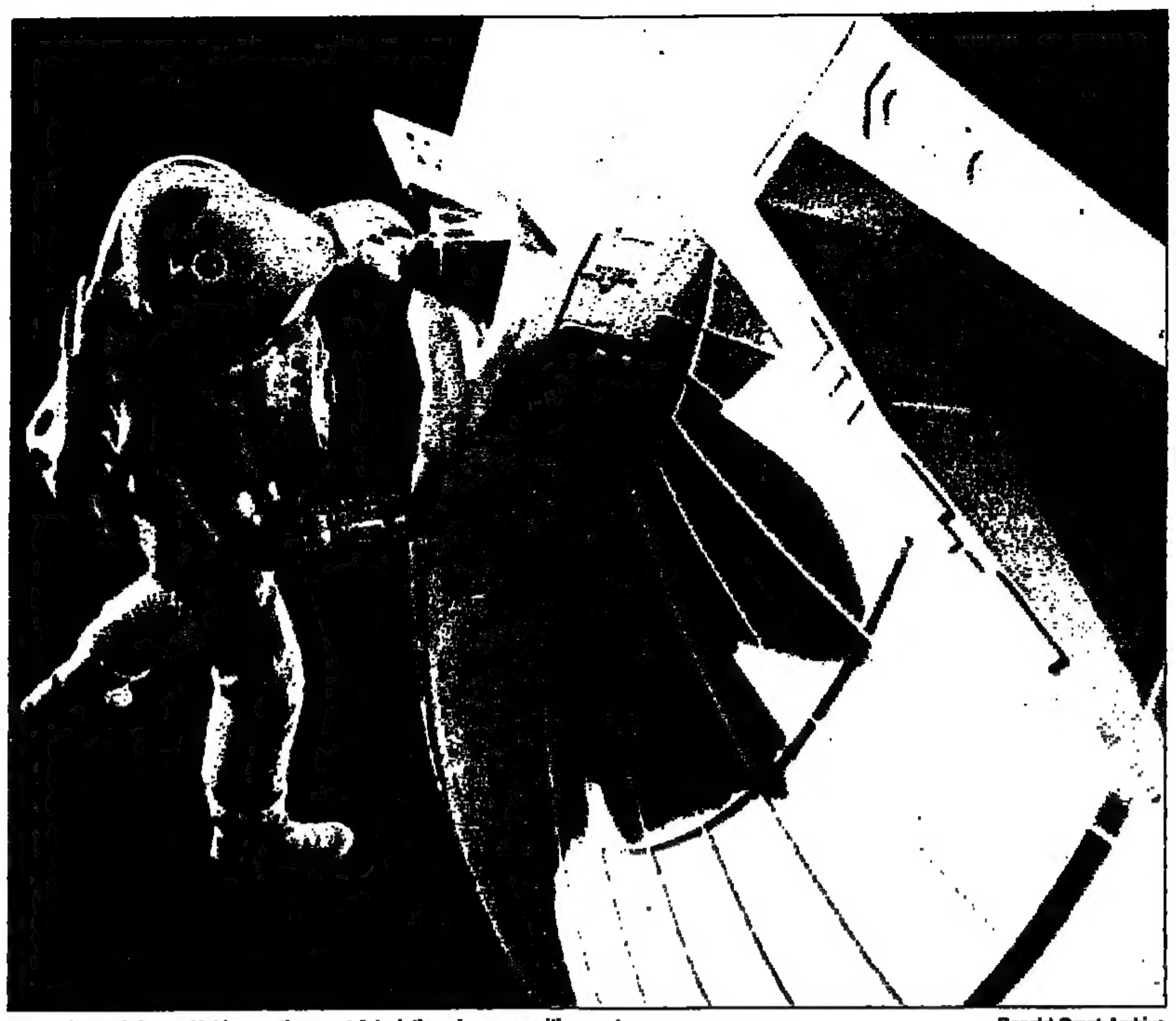
An important catalyst is the power of today's PCs and their built-in sound support, which has encouraged the development of PC-based speech software priced to attract a consumer market.

"There has been a tremendous amount of progress in speech and language technology development in a relatively short time," says Gaston Bastiaens, president and chief executive of Belgium-based Lernout & Hauspie.

L&H is one of several companies offering PC speech software and it has attracted funding from Microsoft, which plans to incorporate speech in its products, although it is cautious over the exact date. Other contenders in this fast-growing market include Dragon Systems, a US pioneer, and mainstream IT vendors such as Philips and IBM.

PC speech programs have claimed accuracies of 96 per cent and recognise continuous speech, so eliminating the need to pause between words – a big drawback of early systems.

Speech recognition is not easy. The sounds must be converted into a digital signal and then processed using a technique called spectral analysis. Finally, the phonemes – basic building blocks of speech – must be identified and grouped as meaningful words.



'Open the pod doors, Hal:' even the most futuristic voice recognition systems can go wrong Ronald Grant Archive

Recognising continuous speech is even harder because it is difficult to identify the start and finish of each word. Also, the pronunciation of each phoneme can be modified by those that come immediately before and after.

Some languages suffer more than others from this effect, so companies have to make significant modifications to handle different languages. Dragon's software is available for American English, British English, French, German, Italian, Spanish and Swedish.

Typing Chinese characters on computer keyboards is time-consuming because it can take six keystrokes to enter a single character. China is thus seen as a big potential market for speech recognition.

L&H recently unveiled a version of its software to handle continuous speech in Cantonese and convert it into traditional Chinese characters. The company also plans to launch two Mandarin language versions. IBM also has a Chinese version of its ViaVoice speech recognition software.

**Some languages present difficulties, so software companies have to make modifications to accommodate them**

AT&T has started a research project to develop an English-Chinese speech translation system with a vocabulary of several thousands words. Intel, the world's biggest chip producer, is also keen on the Chinese market and last year hosted a conference in Beijing on speech recognition.

Intel's interest in speech recognition stems from the fact that the algorithms that process speech are computer-intensive. If PC-based speech recognition does become popular, Intel reasons that users will want to upgrade to the latest PC hardware, such as Intel's Pentium III processor, announced last month.

It has built into the Pentium III several new "extensions" to improve speech recognition. Dragon has developed speech recognition software that is optimised for the Pentium III and will be used to update existing products, such as Dragon NaturallySpeaking (see accompanying story).

In spite of the interest in popularising voice recognition on PCs, it is unlikely to be the biggest market for the technology. The telephone is the only truly universal communications tool, so many companies are focusing on bringing voice recognition to a mass market via the phone.

"I believe the telephone is going to be the biggest application for voice technology," says Mr Patterson of SpeechWorks. It has been developing phone-based applications for online brokers, banks, travel agents and telephone companies. E*Trade, the big US online broker, has added mutual fund trading to the growing range of investment services that customers can access by phone using SpeechWorks software.

E*Trade has offered a voice recognition service since 1997 for customers who cannot or do not want to use the internet to access their account or conduct a transaction. "Contrary to what they believe in Silicon Valley, not everyone is using the internet," says Mr Patterson.

The drive to reduce the often high staff costs of a call centre is causing more service organisations to consider voice recognition to automate routine transactions. The Gartner Group believes many healthcare, telecommunications and financial services companies will introduce speech recognition in the next two years.

Seguros Comercial America, one of Mexico's largest insurers, plans to use software from Nuance, another US pioneer, to allow customers to access information and complete transactions by simply speaking their requests. Nuance has a version of its software for Latin-American Spanish speakers. Another Nuance user is Odeon Cinemas in the UK, which plans to let film-goers obtain information by speaking into the phone.

The ultimate goal of the industry is to marry speech recognition to the internet, thus opening e-commerce to the majority of the population that does not have an internet-equipped PC.

More than a dozen companies, including Motorola, SAP of Germany, and Visa, teamed up with Nuance last year to launch an initiative, called V-Commerce, that will let consumers conduct net-based transactions by giving voice commands over the phone.

The underlying key technology is Motorola's "voice mark-up language", called VoxML. By using special "voice browsing" software – which could be embedded in mobile phones, for example – words spoken over the telephone are converted into VoxML commands that can be sent over the internet and access information from any web server that understands VoxML. The reply would come back as VoxML commands and be converted into synthesised speech.

And there lies the next challenge. While speech recognition has made tremendous progress, computer-generated speech remains quite crude. The reassuringly human-sounding words of Hal are still firmly in the realms of science fiction.

VOICE SOFTWARE IN ACTION

# Speak your mind to a friendly ear

**Patti Waldmeir** talks to the latest software from Dragon and finds it a good listener

In the beginning there was the secretary, complete with nylons and spiral notebook. Then there was the Dictaphone – cold, hard and unresponsive. Now the computer industry has created the perfect cross-breed: a machine with ears and a bit of brain, to take down what you say. It even makes mistakes, which gives it a human touch.

Dragon Systems' NaturallySpeaking voice-activated software is certainly no smarter than the average Dictaphone typist. Indeed, it is not really "intelligent" at all: it does not understand what you say, it simply recognises the words. But if Dragon is dumber, it is also cheaper, quicker – and never has a bad-hair day. Let the typing pool beware.

Until recently, the Dragon was no match for that typist. To use it, one had to speak like a robot, pausing carefully between words, in a halting, unnatural manner. But recent versions – especially the latest, Dragon NaturallySpeaking Professional version 3.52, available for $695 in the US – have eliminated Dragon's worst handicaps. It can now take down normal, joined-up human speech. In fact, if you speak like Hal, it will not deign to comprehend you.

The newest Dragon version is still temperamental, however. If it does not like your tone of voice, if you have a head cold, or even if you had one too many ice cubes in your last Diet Coke (altering your vocal chords), it may refuse to listen.

So it never pays to shout at the Dragon, and obscenities must be kept to a minimum. But if you stay cool, calm and professional, so will the software, and it will render your words with remarkable accuracy.

So forget the conventional wisdom about voice-activated software being slow, inaccurate, taking for ever to train and unable to handle editing. Anyone who dictates e-mail, reports, memos, letters, medical or legal records – or is disabled, or worried about repetitive injuries from overuse of keyboard and mouse – may finally find voice software useful.

This article, for example, is written entirely with the Dragon. With its help, I can navigate my desktop, launching programs simply by saying "start AOL" or "start Microsoft Word". It accepts almost all mouse commands by voice, so I can save or print a document simply by saying "click save" or "click print". If I want to type in bold, or red, or turquoise for that matter, I simply say "make that" bold or red or turquoise.

Errors do occur, despite the company's claims of 95-98 per cent accuracy. But the user can reduce them significantly by repositioning the headphone microphone – it must be in exactly the right spot – and especially by speaking in long phrases or whole sentences rather than individual words.

For those of us who do not think in joined-up sentences, this is hard to do. But it is essential to help the Dragon grasp the context in which a word appears. Without context, Dragon cannot choose between "there" and "their".

Training time is minimal: Dragon works quite well after 30 initial minutes of listening to your voice. After that, it learns to know you better, especially if you spend a little time early on correcting its mistakes. And if you feed it a few documents you have written, it can even learn to understand how you write, and thus make fewer errors.

Editing is easy: you can move around in a document just by saying "move up one paragraph" or "move left three words". To make changes, just say "select" the unwanted words, and then speak some new ones. The revision is immediate.

And for those who still miss their Dictaphone, there is Dragon NaturallySpeaking Mobile. Just speak into a tiny tape recorder, no matter where you are, and plug in later for automatic transcription.

The hardest thing to do is to switch Dragon off. This is accomplished by saying "go to sleep". But it has to be said with conviction and force, or Dragon will keep on recording: phone conversations, malicious gossip, intimate chats with lovers...

Dragon is far from perfect, and more expensive versions, such as the professional version, are much better than the cheaper ones. But it has come a long way since its days as underdog to the typing pool.

Screen talk: computer Holly and the Red Dwarf TV series cast BBC

# OPENINGS

**WASHINGTON**
John Corigliano's new choral symphony, *A Dylan Thomas Trilogy*, receives its first performance on Thursday at the Kennedy Center Concert Hall. Leonard Slatkin conducts the National Symphony Orchestra and Choral Arts Society of Washington, with baritone soloist Hakan Hagegard.

For the North American premiere of Wolf-Ferrari's *Sly* on Wednesday, the Washington Opera's artistic director, Placido Domingo, has brought together two old friends - his wife Marta and Three Tenors song-mate José Carreras. Mrs Domingo is the stage director, and Carreras sings the role of the vagabond poet who escapes life through drink and dreams. Heinz Fricke conducts.

**LONDON**
The Tate Gallery's retrospective of Jackson Pollock offers a rare opportunity to see in full the work of this controversial artist, widely regarded as the most influential American painter this century. Because of the size and fragility of many of Pollock's most important paintings (below), there have been few exhibitions on this scale since his death in 1956. The show, which opens on Thursday, was first seen in New York last year.

Austrian actor Klaus Maria Brandauer (right) makes his English-speaking theatre debut as the director and star of Esther Vilar's new play about the Nazi architect Albert Speer. It opens at the Almeida Theatre tomorrow night.

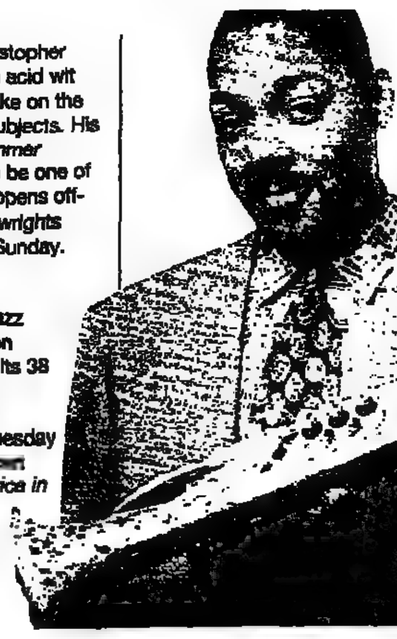
**DRESDEN**
Unlike many of Richard Strauss's other operas, *Ariadne auf Naxos* has no intimate connection with Dresden. The Semper Oper has nevertheless chosen it to mark the 50th anniversary of the composer's death, in a new production by Marco Arturo Marelli, conducted by Sir Colin Davis. It opens on Sunday.

**BOLOGNA**
Toscanini conducted the premiere of Giordano's *La cena delle beffe* at La Scala, Milan, in 1924, but the work disappeared - until the Zurich Opera House revived it four years ago in a stunning mafioso production directed by Liliana Cavani. This staging is revived on Thursday at the Teatro Communale, with Bruno Bartoletti on the podium.

**NEW YORK**
On Broadway, James Goldman's 1966 play *The Lion in Winter* is revived by the Roundabout Theatre Company. The play stars Laurence Fishburne, and Stockard Channing. The opening night is Thursday.

The playwright Christopher Durang possesses an acid wit and the courage to take on the *most sacrosanct of* subjects. His new play, *Betty's Summer Vacation*, promises to be one of his lighter outings. It opens off-Broadway at the Playwrights Horizons Theatre on Sunday.

**PORTLAND**
The Lincoln Center Jazz Orchestra with Wynton Marsalis (right) starts its 38 date coast-to-coast Ellington Centennial celebrations on Wednesday at the Schnitzer Concert Hall. The revue, *America in Rhythm and Tune*, includes some rarely heard pieces. The tour winds up in New York in May.



# Ambiguous attitudes to 'Art'

**Alastair Macaulay** talks to French playwright Yasmina Réza as her play reaches its 1,000th London performance

Yasmina Réza; and Albert Finney and Tom Courtenay in the original star cast of 'Art'

The London production of *"Art"* will have its 1,000th performance at Wyndham's Theatre on Wednesday. This is remarkable *for more* reasons than one. Above all, this is an all-spoken play, not a musical, which immediately *became one of* London's must-see attractions, and has remained so for more than two years. It has long *survived its original* star cast (Albert Finney, Tom Courtenay, Ken Stott) and the six or so casts that have *followed. At* present it features Tom Mannion, Daniel Webb and Gary Olsen. Unlike London's other long-*running* plays (*The Mousetrap, An Inspector Calls, The Woman in Black*), the appeal of *"Art"* is that it is a completely "now" play, about modern men talking about modern manners and modern "art" and modern society.

Admittedly, not everyone admires it. Some people have assumed that – like one of its characters – it is opposed to modern art and that it is merely a fluffy soufflé masquerading as a play while having fun at the expense of the modern world. Others have found it painfully serious and are shocked that it has been hailed as a comedy.

To argue about what kind of play *"Art"* is is already to begin to comprehend it. The ambiguous, ironic mixture of insensitive humour and delicate feeling is central to the *play – art is merely the focal* point on which the plot of this play is hung. Really, it is about men.

*Another remarkable feature* of the play is that its author is French. It is not hard to find British plays in Paris, but French plays in London have been, at best, sporadic – especially those by living authors. Yasmina *Réza is the first* since Camus and Anouilh to have her plays produced in the west end.

I met *Réza* on her recent visit, and asked her if she had been to see the play this time. "I can't bear to see the play any more," she said. "It's boring." Soon, however, she contradicted herself. "As you know, by the time *"Art"* came to London, it was already an international success. Productions of it had been staged in 15 different countries, and . . . the play changed greatly with each nationality.

"The west end production really is very good. I like very much the director, Matthew Warchus, and translator Christopher Hampton. I have liked several of the English casts very much."

I mentioned to her my experience of the audience laughing at "wrong" moments. "That's precisely why I said it was boring for me to watch *"Art"* now. I'm not bored by the play or by the actors, but by the audience. Almost always, most of the audience laughs at the 'philistine' jokes, as if this were a philistine play that hated modern art – which I don't think it is."

Yet, later on, *she says that* she thinks *"Art"* is "perfect" and "a masterpiece". (Probably no British playwright would ever call his own work a "masterpiece", and I suspect that Réza uses the word partly because, in her native French, *"chef d'oeuvre"* – term given as the equivalent for "masterpiece" – actually has slightly different connotations.) She prefers two of her other plays: *L'Homme du hazard (The Unexpected Man)* and *La Traversée de l'hiver. The Unexpected Man* was staged by Warchus, again in a Hampton translation, for the RSC, starring Eileen Atkins and Michael Gambon, last *spring*; the production transferred to the west end for several months. As for *La Traversée de l'hiver*, the National Theatre may produce it this year or next.

*But Réza calls "Art"* – and not her other plays – a "masterpiece" because *she* saw how it transcended its actors. "I was an actress for years myself, and, when I wrote *"Art"*, *I wrote it for* two particular actors. But, despite our friendship, when we were planning the original production, they suddenly became rather difficult – as actors sometimes are – about their availability. However, I realised that the play could work without them, and I had to challenge them: 'Do it now, or it will go on *without you.' That* worked. I don't mean that *"Art"* is actor-proof – it actually needs very clever, imaginative casting – but it can work in different ways, with quite different combinations of very different actors."

> **'I don't mean that 'Art' is actor-proof, but it can work in very different ways with different combinations of actors'**

*I ask her about other play*wrights she admires. Are *any of them British? "Oh* yes. Both Pinter and Stoppard. Shakespeare, of course: though – perhaps this is because my *English* is not good enough – not his comedies, which to me seem not substantial enough. Among American playwrights, Tennessee Williams and Eugene O'Neill. And David Mamet. The only Arthur Miller I like *is Death of a Salesman."* Among the great playwrights around the turn of the last century, she far pre*fers Chekhov. While she* acknowledges that Ibsen and Strindberg are great playwrights, "there is something closed, cold, Scandinavian, there that I do not love".

She loved the RSC production of *The Unexpected Man*, and adored the acting of both Eileen Atkins and *Michael Gambon.* "The only thing wrong was the suit that Eileen wore." If the same duo could take the *play to New York, she would* be delighted.

It is now a well-known story that Sean Connery's *wife, seeing "Art" in Paris*, called her husband and insisted that he come to see the play and buy the film *rights; and that Réza would* only sell him the film rights if he first produced the play in the west end. As a result, *when the west end produc*tion was young in 1996-97, a number of leading Hollywood actors started coming to *London to size up the* play. So what progress has been made towards filming it? "You know, I think I really only ever wanted *"Art"* as a stage play. So let's just say that any film plans are on hold."

She interrupted her own acting career to have children. Writing came out of acting for her – and out of *not* acting – and there are still roles she would like to play. Nonetheless, writing is now her main career. She *has recently* been completing a novel, in which she has come to terms with her feeling for her father, who died a few years *back* and who exercised a challenging influence on her work. "When that is over, I will write my next play. *It's* a very frightening prospect." As she says this, her eyes are bright.

# Charmed by the chainlink 'Carmen'

**Clement Crisp** is won over by Northern Ballet's update of a classic tragedy

Christopher Gable planned Northern Ballet Theatre's newest production, *Carmen*, in the last months of his life. It is fitting that it should show the dance-drama manner he so eagerly advocated during his decade with the company at its most effective.

As I saw it last week in Nottingham's Theatre Royal, this *Carmen* updates a standard classic – the setting is now the industrial northern zone of Rio de Janeiro – but does not destroy the central power of Mérimée's – and Bizet's – creation.

So Carmen works in a cigarette factory. José is a policeman. Escamillo, in a clever switch, is now an egregiously vulgar rock-star, and even the thieves are equipped with that loutish toy, the mobile phone. In Lez Brotherston's evocative setting – chainlink fencing and corrugated iron; chez Lillas Pastia a sleazy bar – and in its everyday clothes *(fearful for the most part)*, the drama unfolds along its familiar, terrifying lines.

I am not persuaded that *these alterations make the* piece any more "relevant" for today's audiences: *Carmen* is a stunningly good *tale*, and set it where you will, the tragedy will strike home if the central figure is well done.

*It is to the company's* great credit that in Charlotte Broom it has an artist wholly credible. And this *despite some flat-footed* – in both senses – choreography. We have seen Didy Veldman's dances with Rambert. Her brand of modern movement sits ill with the rhythmic and melodic force of Bizet's score, even in the reduced and re-worked version the company offers. The crowd scenes look unenterprising and the writing for Carmen and Don José has an oddly uninvolved air: in the bedroom duet they discreetly pull a sheet over themselves, the least erotic of actions, surely, in those circumstances.

But Charlotte Broom cuts through the stodge. She is at first more minx than danger to shipping, but as the tragedy darkens and Carmen becomes aware of her own fate rushing towards her, Broom gains wonderfully in passion, in intensity and in artistic stature. Her last scene, taunting José as a matador taunts a bull and invites death, is tremendous and tremendously moving. She is seen as a tragic artist of real and beautifully controlled power. (Her early comedy scene as she teases José is infuriatingly, deliciously, impudently funny. You long to slap her – and to kiss her, as does José).

*José is always a difficult* role. Daniel de Andrade shows him as obsessed, sullenly trapped in his passion, *and we believe. The rock* Escamillo is enthusiastically played by Christopher Giles as a combination of too-tight leather trousers and too much gold jewellery: it is a scathing, entirely life-like portrait.

*From the rest of the cast*, the usual devotion to detail in playing. From Patricia Doyle, as producer, a fluid, *lively, stage picture that* provides an ideal frame for Charlotte Broom's very fine and very moving portrait.

*Northern Ballet Theatre's production and national tours supported by Halifax*

Tragedy strikes home: Charlotte Broom and Daniel de Andrade

# INTERNATIONAL Arts Guide

## AMSTERDAM

**Netherlands Opera, Het Muziektheater**
*Tel: 31-20-551 8911*
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 8, 10, 13

## BERLIN

**OPERA**
**Deutsche Oper**
*Tel: 49-30-34384-01*
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Mar 11

## CHICAGO

**CONCERTS**
**Orchestra Hall**
*Tel: 1-312-294-3000*
*www.chicagosymphony.org*
● Chicago Symphony Orchestra: conducted by Andrew Davis in works by Mozart and Elgar, with piano soloist Andreas Haefliger; Mar 9
● Chicago Symphony Orchestra: conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, *women of the* Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 11, 12, 13

**OPERA**
**Lyric Opera of Chicago**
*Tel: 1-312-332 2244*
*www.lyricopera.org*
Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann in a staging by Kurt Horres, with designs by Andreas Reinhardt; Mar 10, 13

## EDINBURGH

**CONCERT**
***Queen's Hall***
*Tel: 44-131-668 2019*
Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier. The programme also includes works by Dvorák and Schumann; Mar 11

## LAUSANNE

**OPERA**
**Opéra de Lausanne, Théâtre Municipal**
*Tel: 41-21-310 1600*
Dido and Aeneas: by Purcell/ Curlew River: by Britten. Double-bill conducted by David Stern, with the Purcell staged by Marcel Bozonnet and the Britten by Yoshi Oida; Mar 12

## LONDON

**CONCERTS**
**Royal Festival Hall**
*Tel: 44-171-960 4242*
● Orchestra of the Age of Enlightenment: conducted by Mark Elder in works by Beethoven, Brahms and Liszt. With the Philharmonia Chorus, tenor Justin Lavender and mezzo-soprano Jane Irwin; Mar 9
● Philharmonia Orchestra: conducted by Christoph von Dohnányi in works by Berg and Schubert, with violin soloist Kyung Wha Chung; Mar 9

**EXHIBITION**
**National Gallery**
*Tel: 44-171-839 3321*
Orazio Gentileschi at the Court of Charles I: first-ever retrospective of the 17th century Italian painter, friend to Caravaggio, and Court Painter to Charles I. *Includes a group of works from* the Queen's House in Greenwich, sold after the king's execution and never seen together since; to May 23, then travelling to Bilbao

## MUNICH

**CONCERTS**
**Philharmonie Gasteig**
*Tel: 49-89-5481 8181*
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist *Murray Perahia; Mar 10, 13*
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's *Petite Messe solennelle*; Mar 9, 11, 12

**EXHIBITION**
**Haus der Kunst**
*Tel: 49-89-211270*
Art Across Borders: Classical Modernism from Cézanne to Tinguely and World Art - as seen from Switzerland. Display of the collection made by Swiss recluse Josef Müller (1887-1977), which *combined European modernism* with classical antiquities and pre-Colombian art. Includes works by Cézanne, Kandinsky and *Miró; to May 30*

**OPERA**
**Bayerische Staatsoper**
*Tel: 49-89-2185 1920*
*www.staatstheater.bayern.de*
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne *Lecca*; Mar 8, 12

## NEW YORK

**CONCERTS**
**Avery Fisher Hall, Lincoln Center**
*Tel: 1-212-875 5030*
*www.lincolncenter.org*
● New York Philharmonic: conducted by Gisele Ben-Dor in *works by Beethoven and Mahler*, with soprano Amanda Roocroft; Mar 9
● New York Philharmonic: *conducted by Paavo Järvi* in works by Paul Creston, Bartók and J. Brahms; Mar 11, 12, 13

**EXHIBITION**
**Metropolitan Museum of Art**
*Tel: 1-212-879 5500*
*www.metmuseum.org*
Picasso: Painter and Sculptor in Clay. Seen last year at London's Royal Academy, this show brings together 175 ceramic works by Picasso, mostly created between 1947 and 1962; to Jun 6

**OPERA**
**New York City Opera, New York State Theater**
*Tel: 1-212-870 5570*
*www.nycopera.com*
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 10, 13

## PARIS

**OPERA**
**Opéra National de Paris, Opéra Bastille**
*Tel: 33-1-4473 1300*
*www.opera-de-paris.fr*
Macbeth: by Verdi. Conducted by Gary Bertini in a staging by Phyllida Lloyd, with designs by Anthony Ward. Cast includes Jean-Philippe Lafont and Maria Guleghina; Mar 9

**Opéra National de Paris, Palais Garnier**
*Tel: 33-1-43439696*
*www.opera-de-paris.fr*
La Clemenza di Tito: by Mozart. *Conducted by Ivor Bolton in a* staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 12

## PORTLAND

**JAZZ**
**Schnitzer Concert Hall**
*Tel: 1-503-248 4335*
Lincoln Center Jazz Orchestra: America in Rhythm and Tune. First date of the Duke Ellington centennial tour, led by Wynton Marsalis; Mar 10

## PRAGUE

**OPERA**
**National Theatre of Prague**
*Tel: 420-2-2108 0131*
*www.anet.cz/nd*
The Devil and Kate: by Dvorák. Conducted by Jan Stych in a staging by Marián Chudovský, with sets and costumes by Adolf Born; Mar 13

## SAN FRANCISCO

**CONCERTS**
**Davies Symphony Hall**
*Tel: 1-415-864 6000*
*www.sfsymphony.org*
San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 11, 12, 13

## TOKYO

**CONCERTS**
**Suntory Hall**
*Tel: 81-3-3584 9999*
● Mischa Maisky: recital by the *cellist of works by Beethoven*, accompanied by Daria Hovora; Mar 9
● Yomiuri Nippon Symphony Orchestra: conducted by Heinz Rögner *in works by Mozart*, with piano soloist Akira Wakabayashi; Mar 10

## WASHINGTON

**CONCERTS**
**Kennedy Center Concert Hall**
*Tel: 1-202-467 4600*
National Symphony Orchestra: conducted by Leonard Slatkin in the world premiere of John *Corigliano's A Dylan Thomas* Trilogy. With the Choral Arts Society of Washington and baritone Hakan Hagegard; Mar 11, 12, 13

## TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**
Monday to Friday, GMT:
**06.30:** *Moneyline with Lou Dobbs*
**13.30:** *Business Asia*
**19.30:** *World Business Today*
**22.00:** *World Business Today Update*

● **Business/Market Reports:**
*05:07; 06:07;* 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At *08:20 Tanya Beckett* of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW DANIEL YERGIN

# Uncertainty – the one sure thing

Financial liberalisation and the worldwide market have brought tests and triumphs. Yet many questions remain unanswered

Free-for-all and free fall: a hectic time for traders on the São Paulo Stock Exchange AP

Is the world disillusioned with markets? Will governments make a comeback and reassert their sway over the world's economies? These are the questions we have been repeatedly asked as we have gone about revising *The Commanding Heights*.

Even more strongly, we have been asking ourselves the same questions – with some urgency and, to be honest, a degree of anguish. After all, the book traces the development of the global market consensus over the past two decades. The elements are obvious – the movement from state control to privatisation, deregulation, and a more integrated global economy.

But the past year has not been all that favourable to the market consensus. Outside the US, a great deal has gone wrong. Contagion and collapse have hardly bolstered confidence in markets; and curing capitalism's ills has, for many, overtaken the respect of its virtues.

Did we fall prey to the danger that Hegel described, when he observed that the "owl of Minerva" takes flight at midnight? We think *The Commanding Heights* is about the foundations for the future.

But were we actually writing about the end of an era? A timely question. Our conclusion focused not on the triumph of the market but rather the uncertain balance of confidence and the testings that lie ahead.

But the testing proved to be very tough. The year between the hardback and the paperback demonstrated how truly formidable the trial could be: Asia sank deeper into crisis, as economic disorder turned into political upheaval; the emerging market crisis turned into a global contagion, triggering the Russian collapse and almost beaching Brazil; and Japan's slump got so bad that it finally did something about its banks.

By the time of the World Bank/IMF meeting last autumn, "systemic failure" had become the euphemism for the feared global collapse – until the Federal Reserve came riding to the rescue, guns blazing, with three cuts in interest rates. In the meantime, socialists of one sort or another, promising various mixtures of compassion and Keynesianism, have solidified control over most European Union countries.

We had to make some notable changes. While we had expected Asia to slow, we did not anticipate the full fury of the contagion and the way in which the once-admired "Asian economic miracle" would be transliterated into the much-dissected "crony capitalism". The new section on contagion reflects on whether the world is ready for its own central bank or whether it will, by default, opt for a patchwork of new conventions.

Our chapter on Russia's "ticket to the market" had ended too optimistically, with Vladimir Dovgen, a 33-year-old vodka tycoon, as the embodiment of Russia's more or less successful transition. (A design enthusiast, he decorated his vodka bottles with photographs of himself and his grandfather, a pre-revolutionary entrepreneur, wearing tuxedos.)

Unfortunately, the "less" turned out to be much greater than the "more". The vodka merchant is gone. The chapter now ends with Leszek Balcerowicz, Poland's former and present finance minister and the architect of Poland's successful transition, ruminating on why shock therapy worked there and failed in Russia.

"At the end of the 20th century, we know what are good economic policies and what are bad economic policies," he says. "Reform really means creating a better framework for decision-making. In Russia, reform was not given a chance."

The costs of the global contagion are enormous – whether measured in money or in lives. Much second thought is now being given as to whether the push for rapid financial liberalisation in emerging markets was not only naive but also wrong. Behind that are the even more basic questions – do markets have an inherent tendency to go to speculative extremes, and what kind of governance is required to avoid future busts, with all their human costs?

There is much to reform and fix. Yet when all the critiques are added up, there seems little "back" to go back to, at least if one wants to continue to benefit from participation in the world economy. The reason is, in good part, embodied in what we call "globality".

Initially, we used the word sparingly, indeed carefully. We did not want to be engaged in jargon-generation. But we were struggling to find a way to express our dissatisfaction with the omnipresent concept of "globalisation".

Last week in his foreign policy speech in San Francisco, President Clinton twice proclaimed "the inexorable logic of globalisation". But we find the word too limited, too tied to specific strategies, too suggestive of a process. Our intent was to find a way to capture what the highly interconnected, hyperactive world will look like after globalisation. And globality is already here – whether in terms of the internet or in financial contagion.

Over the year, globality graduated from modest references in our book to becoming, just a few weeks ago, the very high-profile theme of this year's World Economic Forum in Davos.

Germany's president told the Davos conclave that he was there this time to talk about globality, not globalisation. For his part, Bill Gates promised to get the word into Microsoft's dictionary.

Globality is the result of three reinforcing trends – the world's general, if not full, embrace of the market consensus; the continuing integration of economies; and the force of technology. The second and third continue apace – as measured in the birth of the euro and the growing impact of the internet on businesses of all kinds.

In addition to the inevitable surprises, obvious tests for the market consensus lie ahead. Can the US remain, in splendid isolation, the remarkable continent of growth and job creation amid a generally troubled world?

The mismatch between global capital markets and national financial systems remains, threatening future shocks. The "new architecture for the global financial system", so ballyhooed just a few months ago, has already been downsized into modest but valuable additions to the existing house. Europe's slowing economy is likely to lead to a face-off between the Maastricht spirit and the deep-seated instincts of the German social democrats.

Will Russia continue to "muddle down" into chaos and reaction, or will the next president try to restart the market process? And what business model will ultimately make money on the internet? After all, some argue, the most consistently successful internet business to date is actually doing the IPO. Whatever the answers to these questions, one thing is certain: there will be no shortage of tests and trials ahead.

*Daniel Yergin is author with Joseph Stanislaw of 'The Commanding Heights: the Battle Between Government and Marketplace' that is Remaking the Modern World, published this week in its new paperback edition by Simon & Schuster. Dr Yergin is chairman of Cambridge Energy Research Associates.*

# LETTERS TO THE EDITOR

## Consequences of popping the bubble

*From Mr Robert Fullem.*

Sir, I hope Gerard Baker ("Irrepressible exuberance", February 26) finally realises that bursting an equity "bubble" in the US could have counter-productive – if not horrific – consequences. We cannot afford to rattle the importer and lender of last resort: confidence worldwide would collapse.

US asset valuations at any point in time reflect relative risk appetite. High equity prices and bond yields suggest that the world is hoping the US can bring prosperity to it in the 21st century.

The last time the US became the centre of wealth creation and global financial stability was in the 1920s. Global economic revaluation followed a revolution in technology. Overcapacity became apparent in the industries of old while new sources of capital became readily available for the industries of the future.

A similar pattern has evolved recently. Following the telecommunications and computer revolution of the 1980s, sector-specific overcapacity has forced Japan and commodity producing countries into economic hardship. Once again, the US ends up with the capital and, to some extent, the burden. If care is not taken, bursting expectations in Yahoo! may create a crisis of confidence that sends the world into another depression.

Mr Baker and others should never espouse bubble-bursting in these unsettled times. Deflating bubbles is the preferred course in a world of growing imbalances. It is the arduous task of Alan Greenspan, the Federal Reserve chairman, to keep this transformation into the industries of the 21st century intact while Japan, by reflating its economy, rebalances world growth. Ultimately, it is Asia that will determine events.

Robert Fullem,
630 1st Avenue,
NatWest Global Financial Markets,
New York, NY 10018, US

## Two role-players in future of world's monetary system

*From Prof Peter Coffey.*

Sir, I believe O. de Beaufort Wijnholds is completely right when he states that the International Monetary Fund is not equipped to play the role of lender of last resort ("Maintaining an indispensable role", March 1).

Furthermore, it is doubtful whether any international organisation (except for purely regional bodies) could or should play such a role. Even so, apart from calling on private sector funds to play a bigger role, as he suggests, there are at least two types of institutions whose work should be further developed or emulated in reforming the international monetary system.

First, as Prof Stephany Griffith-Jones suggested (Letters, January 19), it is the Bank for International Settlements (and not the IMF) that should be called upon to play a more important regulatory international role. Indeed, the annual report of the BIS is a model of sobriety and reliability. Thus, in any reform of the statutes of the IMF, that organisation should be required to use the good offices of the BIS for regulatory purposes.

Second, one should also look to reforming the World Bank. Here, the example the World Bank should emulate is that of the European Investment Bank. The EIB owes its great importance and success to the close links it maintains with the projects with which it is involved and to the relative frugality of its management costs. This would seem to suggest that the future of the international monetary system lies partly in a regional solution – as Prof Ronald I. McKinnon so eloquently suggested ("Policy of last resort", February 9).

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## Paris Club must not interfere over eurobonds

*From Mr Mark Evans.*

Sir, Western authorities bear a substantial portion of the blame for the half-baked financial reform programme that Russia has undertaken in the past seven years. This includes inadequate attempts to restructure Soviet debt inherited by Russia. It is now vital that the Paris Club debt is substantially reduced.

However, it would be a major blunder for an attempt to be made to interfere with the new eurobonds. This would be unprecedented, unfair and against the wishes of the Russians. By digging themselves into this ill-thought-out position, the authorities may find that all attempts to restructure Russia's debt will founder as eurobond holders refuse to co-operate and sue for default. Some dogs are best not woken!

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ECONOMICS NOTEBOOK PETER NORMAN

# Working up to change

*The divisive issue of structural reform is putting employment back on the EU agenda*

Structural economic reform has always been the least loved of options for economic policymakers.

The benefits of introducing flexibility in the workplace, deregulating business sectors, opening markets to competition and compressing costs can take a long time to appear. The short-term pain is all too apparent to those affected who frequently form an angry and often politically alienated lobby.

But until last September's German election, when Gerhard Schröder emerged triumphant at the head of a Social Democrat-Green coalition, there was a grudging consensus in the European Union that painful medicine had to be swallowed to cut unemployment.

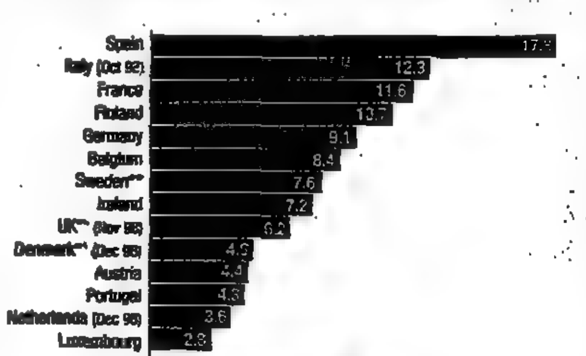
That consensus is being challenged as never before, opening a new fault line under the euro in addition to the nasty row over the pros and cons of lower interest rates between the European Central Bank and Oskar Lafontaine, the German finance minister.

The old orthodoxy still holds in the influential and secretive EU economic and financial committee, which co-ordinates economic policy among the 15 EU member states. In advocating domestic policies that boost demand, or more stable exchange rates between the euro, dollar and yen, Heiner Flassbeck, Mr Lafontaine's unashamedly Keynesian state secretary, has often been a lone voice among the officials from other finance ministries, the European Commission and the European Central Bank.

But structural reform is under attack elsewhere. Germany's influential trade union federation, the DGB, last month lambasted the Commission for "old-fashioned thinking" on structural reform in its 1999 annual economic report.

At last week's congress of the Party of European Socialists in Milan, Tony Blair, the UK prime minister, appeared in a minority when he urged "real economic reform that tackles the fundamental supply-side weaknesses of the European economy". The PES, which represents 20 left-of-centre parties from the European Union countries, Norway and Cyprus, and includes Mr Blair's Labour party, adopted a policy document for a "new European way" to full employment that signals a significant dilution to previous commitments to supply-side structural reform.

**Unemployment within the EU**
% of labour force* (seasonally adjusted)




* Figures Jan 1999 unless otherwise stated
** Not in Euro-zone and data for Greece unavailable
Source: Eurostat using ILO criteria and based on Community Labour Force Survey

As 11 of the EU's 15 governments are headed by Social Democrat or Socialist parties belonging to the PES, the report could prove influential in shaping the discussions for the "European Employment Pact" to be agreed at the EU June summit in Cologne.

The report urges a co-ordinated economic strategy tilted towards boosting employment through increased demand. Drawn up by António Guterres, the Portuguese prime minister, it urges a mix of monetary, wage, fiscal and tax policy.

At first sight, the document has something for everybody. A fiscal conservative – or "neo-liberal" in Mr Lafontaine's parlance – would sympathise with its insistence that higher growth should be combined "with a control of inflation, public deficits and debt". Supporters of Mr Blair's "third way" would applaud its stress on educational reform and encouragement for small businesses.

But in tackling the supply-side agenda of economic management, it sets a new tone. Deregulation plays no part in the PES policy prescription. There is no reference to cutting taxes. Its talk of structural policies playing "an increasing role at national and European level to improve the potential for innovation and growth" comes with a strong whiff of *dirigisme*. Its recommendation that European and national budgets be restructured "to identify and stimulate new areas of job creation" echoes the discredited "picking winners" policies of the 1960s and 1970s.

There is a striking contrast between the PES approach and recent Commission papers which have underlined the importance of structural reforms to foster economic growth and employment through liberalising labour, product and capital markets and services.

A recent Commission document identified a catalogue of deficiencies in Europe. Pointing at France, Italy and Spain, it "noted worrying increases in the amount of aid granted to rescue and restructure firms in difficulty". France, Belgium and Greece were especially bad at enforcing EU single market legislation. The Commission was doubtful whether shorter weekly working time, a cornerstone of the French socialist government's policy, could cut unemployment.

More broadly, the document, to help prepare the Commission's next "broad economic policy guidelines" for the EU, observed that it took an average of 11 procedures to found a company in Europe against six in the US. It stated that "high taxes hamper economic efficiency, growth and, eventually, job creation".

The Commission's message was that more, not less, structural reform is needed. While there was some overlap between the Commission and the PES prescriptions, the divergences were more obvious.

Mr Lafontaine has a simple explanation why "neo liberal" structural reform must go. The 16 years of Chancellor Helmut Kohl's centre-right government tried such policies and unemployment rose with every turn of the economic cycle to more than 4m.

But the accompanying table invites another conclusion. There are many countries with lower unemployment than Germany, such as Portugal, Denmark and the UK, which have implemented often difficult structural reform over the past two decades.

But despite German deficiencies, the tide is probably moving in the direction of Mr Lafontaine's new economic paradigm. An early test will be the discussions among the EU's economics and finance ministers over the broad policy guidelines to be published by the Commission on March 30. If the Commission sticks to its guns and advocates structural reform, it is safe to predict that Mr Lafontaine and Mr Flassbeck will be involved in a second high-profile policy row in addition to that with the ECB.

The difference will be that the Commission, unlike the ECB council, is due for renewal at the end of this year. With Chancellor Schröder demanding a Social Democrat commission president from January 2000, the scene could be set for a further shift in the economic policy making consensus towards Mr Lafontaine's position.

In 12 months, Mr Blair, with his diagnosis of a "vital need for structural policies of economic reform" in Europe, could well be out on a limb.

FINANCIAL TIMES

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Monday March 8 1999

# Brazil's challenge

The volatility in Brazil's currency market last week shows that the country's financial crisis is far from over. So the details of the country's revised deal with the International Monetary Fund – the centrepiece of a $41.5bn international support package – need to be published as soon as possible. Political commitment to fiscal adjustment is as vital as ever if stability is to be restored to the country's economy, and a basis set for recovery.

Brazil's decision to float its currency in January is the main reason why new negotiations were necessary. Since then the Real has devalued by 40 per cent against the US dollar, reviving inflation, one of the country's traditional economic bugbears.

That in turn has made it more difficult for Brazil to meet macro-economic commitments agreed to in October, such as steady falls in its debt to GDP ratio. After negligible inflation for the last four years, prices are now expected to increase by 16 per cent in 1999.

To contain these inflationary pressures, the government on Thursday increased overnight interest rates from 39 per cent to 45 per cent. It was right to do so. But these high interest rates are imposing a heavy burden on the real economy – which is already expected to contract by nearly 4 per cent this year.

The rate rise also means that Brazil continues to face heavy costs in servicing its R320bn ($152bn)domestic currency debt, leaving open the prospect that a restructuring agreement may eventually be necessary.

For these reasons it is essential that in its revised agreement with the Fund, Brazil does everything it can to ensure a revival of international confidence, allowing it to attract capital back to the country and reduce interest rates in the medium term. Credible plans to reduce inflation, including clear and realistic targets, are required. If as part of this objective it is necessary – in the short term at least – to use some of its funds to stabilise the currency, these arrangements must also be as transparent as possible. Above all, however, Brazil must show clear commitment to reduce its fiscal imbalances. A reaffirmation of the government's existing privatisation programme would help in this respect.

Elsewhere in Latin America, there are signs that countries like Mexico and Argentina are now gaining the benefits of their success in bringing public spending under control. The international bonds of both countries are now trading at a significant premium to those of Brazil, and both have been able to tap the capital markets in recent weeks. Brazil could eventually follow suit, but only if it pursues the objective of macro-economic stability with relentless determination.

# Japanese risk

Industrial Japan at last appears to be taking steps to reduce surplus capacity and cut costs. This is not before time: capacity utilisation is at its lowest for 23 years, and capital and labour need to be redistributed from heavy industry to more dynamic businesses. But there is less to Japanese restructuring than meets the eye.

Hundreds of companies have talked about job losses in recent months. Some, such as Fujitsu and NKK, the steel company, have begun shedding peripheral businesses. Traditional keiretsu business links are breaking down, as shown by Toyota's refusal to provide additional capital for its relationship bank, Sakura. Mergers and acquisitions by foreign companies are forging ahead, exposing the Japanese businesses to more pressure to improve return on capital.

But the consequences of these changes have so far been limited. The first to restructure have been those forced to do so by financial distress rather than by a desire to improve return on capital. Few financially sound groups have announced radical closures. The recent announcement by Hino, the truck maker, that it might have to sack 400 people if they do not accept voluntary redundancy is a rare sign of tough behaviour.

Many apparent job losses merely involve shifting staff from parent companies to economically unproductive work in non-consolidated subsidiaries. Moreover, those that are being shown the door are not well-paid middle-aged men – where the real productivity problem lies – but young, low-paid women.

That is understandable, given the high cost of making people redundant in Japan – as much as $200,000 per worker, against $30,000 in the UK, according to Warburg Dillon Read. Japanese companies' reluctance to sack people is part of a culture of full employment. That will be slow to change. Yet even within that constraint, more radical restructuring could still be achieved.

One incentive to managers to improve profitability would be executive share options. These are rare, but likely to become more common thanks to a recent change in tax rules. A cut in corporation tax, due to be implemented soon, should allow companies to retain more income for investment in profitable businesses. Another helpful step will be the arrival by 2001 of more transparent accounting rules. This should encourage better allocation of capital.

But the risk remains that the natural conservatism of many Japanese companies will condemn them to a deeper crisis before they can accept that radical restructuring is essential. That would inflict even more long-term damage on Japan's beleaguered economy.

# Zhu's struggle

From the moment last year when China's premier Zhu Rongji complained that his officials were falsifying output figures, it has been clear that he is in a different mould from predecessors who tended to gloss over problems and failure.

Now come blunt warnings that a hard battle lies ahead to meet this year's 7 per cent growth target, that state enterprises must pull out all the stops to boost efficiency, and that China is heading for a record budget deficit. This is no message of comfort to those who have been looking to China to help pull Asia out of recession, but at least China has a leader who, unlike his Japanese counterparts, recognises problems and is quick and flexible in response.

There would be reason for alarm if the outlook was so bleak that social unrest threatened to undermine the government's authority, or if the government looked set to respond with devaluation, sparking a new round of currency turmoil. Fortunately, disturbances do not appear that widespread. As for devaluation, recent price shifts have helped produce a small real fall in China's exchange rate. A full currency realignment would be of little help.

The real problem is the collapse in domestic demand. Mr Zhu rightly understands that there is no longer any point in trying to engineer growth by allowing state enterprises to continue producing piles of goods – stocks run to 10 spare shirts per male Chinese on some counts – that nobody wants. That would only fuel more deflation. Confidence must thus be revived even while state enterprises are subject to new and much tougher discipline.

Striking the right balance is exceptionally difficult, but a large budget deficit is definitely appropriate. With total government debt of less than 15 per cent of gross domestic product, China can afford a deficit as long as it is wisely spent. Here there are some positive signs. Considerable resources are to be directed to the countryside where most Chinese still live. Raising rural incomes would do much to revive domestic demand as well as help keep the lid on social unrest. Small-scale electrification, road and irrigation projects can make a real difference to rural areas where much pent up demand remains.

There is no certainty of success. Ever mindful of the risk of bubbles, Mr Zhu may also be too cautious about easing credit, while, abroad, a weak yen could derail recovery efforts. But his prescription is sensible. Getting the dosage right still involves a large element of luck. A lot is riding, and not just for China, on the gamble paying off.

# A partnership in peril

## The banana dispute not only threatens to inflict economic damage either side of the Atlantic, it could fatally weaken the system, writes **Guy de Jonquières** and **Nancy Dunne**

Here they go again. Like a middle-aged married couple frustrated by the trials of co-habitation, the US and the European Union have stumbled into another blazing row. As with many matrimonial squabbles, the pretext – in this case, trade in bananas – appears trivial; but the anger it has unleashed is so powerful that it is seriously straining the partnership – and much else besides.

Trade conflicts – particularly over agriculture – have regularly disrupted transatlantic relations since the European Economic Community, the EU's precursor, was formed more than 40 years ago. Senior officials in Brussels and Washington insist they want to stop such quarrels recurring. Yet they seem to keep getting bigger and more frequent.

This time, the risks are unusually large. Last week's US decision to start implementing its threat of sanctions on more than $500m (£312m) of EU exports was in retaliation over what it says is the EU's failure to comply with a World Trade Organisation ruling in the banana dispute. It has inflamed tempers in Europe – most intriguingly in Britain, America's staunchest ally – and threatens economic damage on both sides of the Atlantic.

Worse still, the conflict is putting at risk the interests of other countries – and the global trade order. The battles between the US and EU in the WTO have already tested almost to destruction the body's procedures for adjudicating trade disputes. Unless the quarrel is resolved quickly, it could fatally weaken the system.

As President Bill Clinton, his resistance stiffened by Congress, asserted on Friday, the dispute is about the very survival of a rules-based trading system. The WTO has condemned the EU bananas regime, which favours imports from Africa, the Caribbean and the Pacific. Although the regime has been modified, the US says it still discriminates against its distributors of Latin American fruit and is angry that the EU has repeatedly refused to discuss the matter.

When the WTO delayed last week a report on the estimated cost to the US of the EU banana scheme, Washington struck.

"We cannot maintain an open trading system, which I am convinced is essential for global prosperity, unless we have rules that are abided by," Mr Clinton said. Republican Congressman Jim Kolbe, a liberal on trade issues, said it was all the more alarming that the US and EU would go to the wall over a product which neither produces. "If the EU won't abide by WTO decisions on bananas, how will we ever get them to agree to anything else down the road?"

The EU, and some other WTO members, insist the US is flouting the rules, because the WTO has not authorised it to impose sanctions. They claim the US is simply acting at the behest of Chiquita Brands, its biggest banana distributor, whose lavish campaign contributions have earned legendary political influence. But Congress and the administration were in a mood to take action.

The US House of Representatives last October came close to voting its own sanctions against the EU. The administration headed off the vote by setting deadlines for EU compliance with the WTO ruling and threatening retaliation if they were not met. The banana case is widely viewed in Washington as a make-or-break test of the WTO's role as world trade policeman. In fact, the administration next year is required to submit a report on the pros and cons of WTO membership. Any congressman can voice a vote to withdraw from the organisation.

The economic and political consequences of such a move are incalculable. But even if it does not materialise, the persistence of ill temper over bananas can only make it harder for the US and EU to cope with looming confrontations on a growing range of other trade issues. They include regulations on aircraft engine noise and personal data protection, US sanctions laws, genetically modified (GM) foods and the EU's ban on hormone-treated beef.

What has gone wrong? Why do apparently minor differences increasingly divide the world's two biggest economic powers, particularly when they are so closely united by large trade and investment flows and shared political and social values?

The most obvious immediate explanation is the end of the cold war. Trade tensions, which were restrained when transatlantic bonds were needed to maintain global peace and security, are now allowed to become much more contentious issues. That points up a paradox: the US and EU have more in common than ever before. That, says one European diplomat with long US experience, makes their differences stand out like mountains in an otherwise flat landscape.

Closer integration of US and EU markets through expanded trade and investment are making those differences more – not less – important. The reason is that as border barriers, such as tariffs and quotas, fall, other obstacles to market access are emerging.

Some are rooted in local culture and national attitudes – sometimes of a highly emotional character. For instance, EU resistance to US exports of hormone-treated beef and GM foods reflects widespread worries among European consumers about the safety of products which most Americans accept without question.

Divergent regulatory priorities – often in areas once regarded as being largely of domestic concern – are also increasingly creating discord. One such case is a pending EU proposal to cut airport noise by banning aircraft fitted with "hush kit" mufflers – a move the US says would discriminate against its aviation industry.

Even when disputed regulations are not intentionally protectionist, aggrieved producers complain to their governments that they are being denied fair market access. Trade conflicts can swiftly follow.

The bananas battle, admittedly, does not belong to this new generation of trade problems, arising more from old-style protectionism.

However, the fact that it has reached such intensity points to a deeper flaw in the US-EU relationship, which increasingly complicates their trade ties. This is that political structures and attitudes on both sides of the Atlantic have not kept up with the realities of international trade and investment. While businesses in the US and EU venture enthusiastically into each other's markets, the policies which determine how those markets operate still reflect narrow national or regional perspectives.

**Why do apparently minor differences increasingly divide the world's two biggest economic powers when they are so closely united by shared political and social values?**

"Ninety-five per cent of day-to-day trade and investment between the US and the EU is trouble-free," said a trade diplomat. "The problems start when politicians and bureaucrats become involved."

Many observers believe matters are made worse by personal frictions, notably between Sir Leon Brittan, EU trade commissioner, and Charlene Barshefsky, US trade representative. The two are said to have conferred rarely since the bananas dispute flared up, apparently preferring to communicate through angry press releases and megaphone diplomacy.

Strains are even seeping into the one big area of trade policy where the US and EU have worked together in relative harmony, China's WTO membership talks. So much so, that Sir Leon was moved last week to warn Washington publicly not to do a "sweetheart deal" with China on entry which conferred special favours on the US

The obvious way to restore trust is for US and EU policy-makers to broaden and deepen their co-operation. They have already launched a flurry of political initiatives with just that aim in mind. They include six-monthly US-EU summits, regular meetings of American and European business leaders and the Transatlantic Economic Partnership, a forum designed to negotiate away barriers to two-way investment and trade.

Yet none of these channels has delivered the goods. Most US-EU summits have proven empty ceremonial affairs, while negotiators charged with trying to chart smoother trade relations have repeatedly struggled to avoid being engulfed by breaking conflicts. "It seems we have to create a crisis whenever we want to get anything done," said a frustrated US trade official.

The lesson, it seems, is that attempts to institutionalise US-EU collaboration can achieve little unless the machinery of government on either side is more deeply committed. Both Brussels and Washington concede that. But they disagree over who is responsible.

Brussels blames US fondness for unilateral trade actions, such as the Helms-Burton anti-Cuba law, pursued with little regard for other countries under pressure from a hawkish Congress. But in US eyes, the EU is just as guilty of high-handed behaviour.

US officials blame the EU for repeatedly rejecting their requests to discuss changes to its banana import regime, which could have prevented the conflict. Said one: "They kept telling us decisions on the regime were an internal EU matter, and they would only talk to us once they were taken."

The US accuses the EU of a similarly exclusionary attitude towards its single market. Brussels' efforts to free internal trade by harmonising EU members' national standards have often led to messy legislative compromises, on issues such as data protection and audio-visual services, which have created trade frictions with the US.

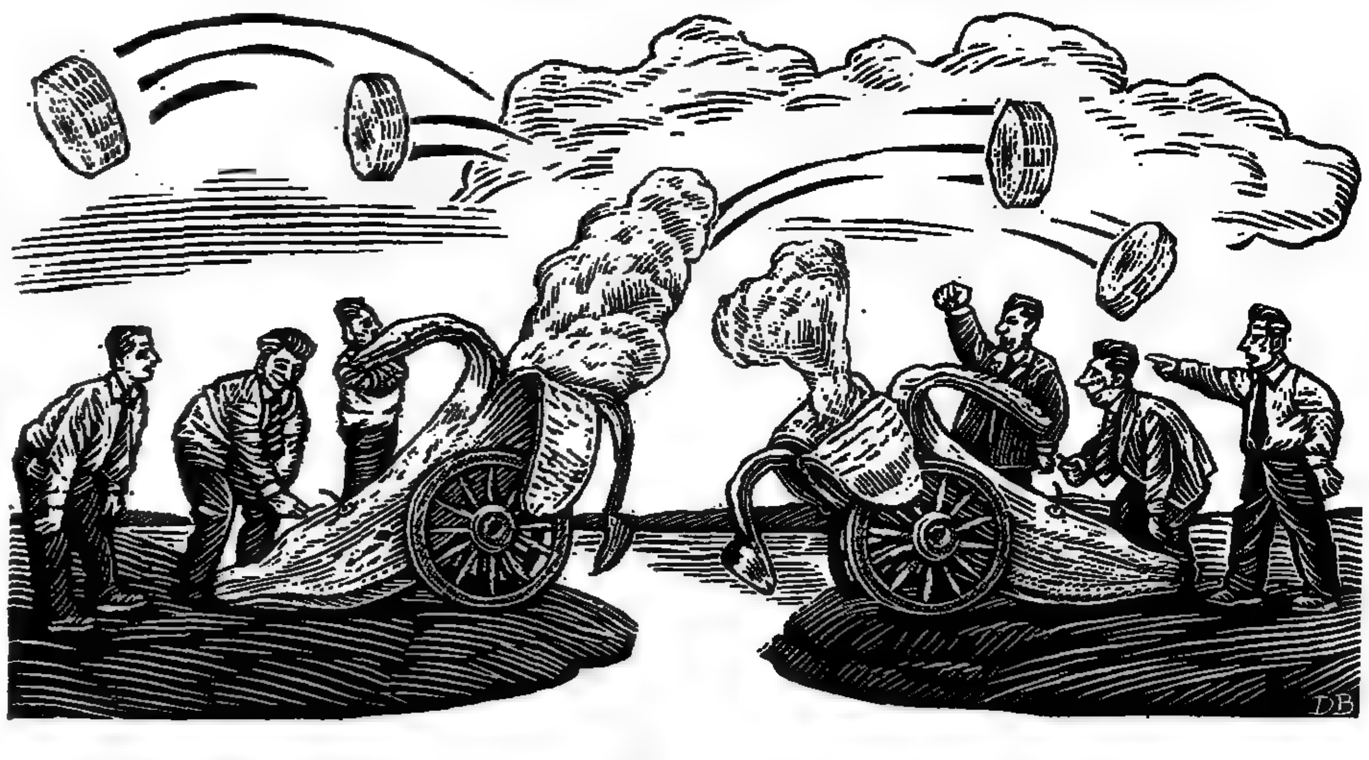
Washington has long asked to be consulted on such questions before final decisions were taken. But the EU says the US is demanding the unacceptable right to meddle in its internal affairs.

Some observers believe economic and monetary union is encouraging the EU increasingly to pursue home-grown objectives with scant regard for their international impact. "I hear people saying 'Let's fix the euro first and then deal with the external consequences,'" says Professor Helen Wallace of Sussex University. "That is the same attitude the US has always taken towards the dollar. The horror is that, in their approach to economic policy issues, the US and EU seem to be getting more and more like each other."

And many in the US, even those of a fervently anti-protectionist inclination, are growing frustrated at Europe's inability or unwillingness to shoulder a greater part of the burden of world growth. The suspicion is widespread that Europe could become another Japan – with weak domestic demand, a complex regulatory structure, barriers to trade, and a willingness to use the export sector as the shortest route out of domestic economic weakness.

Some hope the bananas dispute might actually ease the tensions by bringing all of these simmering issues to a head. That could pave the way for some form of reconciliation, which will be essential if the US and EU are to succeed in getting a new world trade round launched this year.

But it may already be too late. "I don't think this will undermine the other things we co-operate on – like Kosovo, Nato expansion, the transatlantic dialogue," said Mr Kolbe. "But the WTO could collapse in a heap of recriminations."




# OBSERVER

## Dogfight on Wall Street

The bosses at US-based financial services group Morgan Stanley Dean Witter have 101 reasons to be cheerful.

The merger two years ago of Morgan Stanley, the white-shoe investment bank, and Dean Witter, the rather less swanky brokerage and credit card company, was greeted almost immediately by prophesies of doom.

But the gainsayers have been proved well and truly wrong, and the deal is now regarded as one of the most successful examples of recent consolidation in the US financial services industry.

What's more, the great ship Morgan Stanley has admirably weathered last year's storm in the financial markets. The likes of Goldman Sachs and Merrill Lynch suffered heavy losses in fixed income, but Morgan Stanley reported record earnings for the year.

So Observer would have thought that former Dean Witter top dog Philip Purcell and Morgan Stanley man John Mack, his number two, would be riding high – particularly after banking big bonuses.

Instead, the gossip is that they're locked in mortal combat. A Morgan Stanley spokesperson vehemently denied the rumours. But some Morgan Stanley bankers are worried for their man Mack – known as Mack the Knife.

Clearly, even on Wall Street, money isn't everything.

## Army offensive

Serbs are responding to official exhortations to support the war effort in Kosovo in a variety of ways.

While many young men are spending fitful nights in different houses to dodge the draft, the proprietor of independent channel TV Palma is keeping the troops happy – by beaming pornographic films into their quarters.

Channel owner Miki Vujovic withdrew his nightly hardcore offerings after complaints from the public. But soldiers of the Yugoslav army wrote a letter of protest, so he decided to broadcast.

The border unit wrote: "In these hard and critical moments for all of us, the greatest burden is on the shoulders of the youth who are doing military service. That's why you cannot remotely feel what a blow it was to the Yugoslav army when you suddenly changed your programming and left out the erotic films and put in South American soaps instead."

Vujovic robustly defends his choice of erotica, claiming it's all rather tasteful stuff. And Serbia's hardcore nationalist Radical party is also happy. It's taken to filling slots before the erotic features – to advertise rallies in defence of the fatherland from threats by Nato and Kosovo Albanian "terrorists".

## I spy Pavlos

Greece's top diplomat has no problem handling crises or canapés. But he's leaving his urbane arts behind in favour of the cloak and dagger world of the state intelligence service, EYP.

EYP – pronounced "ape" – has a somewhat unsavoury reputation as a haven for old-fashioned nationalists with a distinctly thuggish streak. But Greece's modernising prime minister, Costas Simitis, has now decided he wants to spruce it up without further ado by getting rid of its knee-jerk anti-Turkish culture.

The agency's embarrassing bungling of the Abdullah Ocalan affair – in which Kenyan agents grabbed the rebel Kurdish leader from EYP types after he left the Greek embassy for Nairobi airport – has enabled Simitis to seize the day.

EYP's new boss is Pavlos Apostolides, secretary general at the foreign ministry. His appointment has created quite a stir: his picture has been splashed across the front pages of Greek newspapers and a special law approving his appointment – and requiring him to brief politicians regularly – is being rushed through parliament.

Observer only hopes he doesn't miss the civilised calm of his previous job.

## Queuing up

Why go to court over the letter Q? For the New York Stock Exchange, whose battle with rival stock market Nasdaq has been heating up of late, the alphabet is serious business. The Big Board has long used single letters as stock symbols to denote companies that trade on its market: T for AT&T, for instance, or F for Ford.

These "ticker" symbols are jealously guarded, so much so that when Chrysler was swallowed by Daimler last year, its prized C was immediately grabbed by the new Citigroup.

The NYSE has hoarded these status symbols as part of a marketing campaign to lure companies to its market. It's said the letters M and I are held in reserve in case Microsoft or Intel one day decide to defect from Nasdaq to the NYSE.

So imagine the dismay when Nasdaq nabbed the letter Q as the symbol for its Nasdaq 100 index. The result: a lawsuit in which the NYSE is hoping to establish its right to use single-letter stock symbols. But who would want the letter anyway? Not Quaker Oats: it is already trading happily on the NYSE under the symbol OAT. So if anyone else wants it, they won't have to join a Q.

## Financial Times 100 years ago

**Work For A Spanish Clerk**
Spain has got a new Cabinet at last, with Señor Silvela, as Premier and Foreign Minister, at the head of it. The Public Works and Colonial Departments are to be rolled into one, preparatory, we are told, to winding up the affairs of the Colonial Office.

That will be one expense saved, for the existing colonies of Spain could very well be looked after at home by a first-class clerk.

## 50 years ago

**Western Europe's Recovery Plan is Discussed**
Paris, March 7. Eight European Cabinet Ministers ended a six-hour closed session here to-night "in complete agreement" on an economic recovery plan for Western Europe.

The Ministers – Western Europe's "Economic Cabinet" – represented Britain, France, Italy, the Netherlands, Turkey, Sweden, Switzerland and Belgium.

They met under the chairmanship of M. Paul-Henri Spaak of Belgium to ratify an agreed plan of action for economic recovery.

The Ministers have met daily since Friday working out an "economic charter" for the Marshall nations.

# FINANCIAL TIMES

MONDAY MARCH 8 1999



THE LEX COLUMN

## Italian finance on trial

Is Olivetti's hostile €53bn bid for Telecom Italia a manifestation of modern European capitalism? Yes and no. No, because Olivetti's financing is based on some distinctly old-fashioned techniques – such as a cascade of holding companies, one on top of another. No also because Franco Bernabe, Telecom's new chief executive, has at least as good a claim to be seen as a champion of shareholder value as his Olivetti counterpart, Roberto Colaninno.

But the very fact that a hostile bid on this scale has been mounted has electrified continental European finance. It is as if a taboo has been broken. Do not expect an epidemic of bid battles. But chief executives of underperforming companies of any size will now sleep a little less easily. Add to that the fact that the creation of the single currency has made it easier to assemble the war chests needed for such mega-bids, and the cause of shareholder value has *probably* taken an important step forward.

At present, one can only say "probably". Too much in this particular fight remains to be tested. For example, will Telecom's fate be decided on the basis of which management offers the best deal for shareholders? Will the regulator, Consob, ensure fair play? And will the politicians stay out of the picture?

Encouragingly, the rival camps are using the rhetoric of shareholder value. But, at the end of the day, what matters is action.

With Telecom, the main concern is that it could try to use legalistic rather than financial arguments to frustrate the bid. There were some early wobbles. But Mr Bernabe fortunately seems to have concluded that a defence based on poison pills would destroy his greatest asset, his personal credibility with investors.

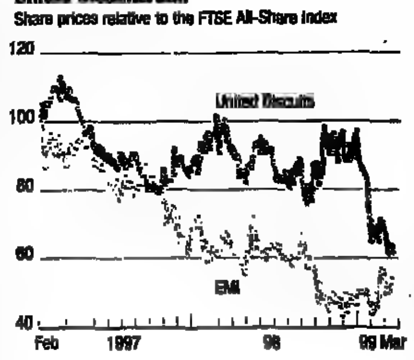
With Olivetti, there are several worries. Could Telecom's shareholders be trapped as minority investors in one of its cascade of Chinese boxes? Might Telecom's savings shareholders be forced to take non-voting stock in Olivetti's leveraged acquisition vehicle? Could Olivetti try to exercise control on the cheap through a large minority stake?

In part, the answer to these questions lies with the market. If voting shareholders do not like Olivetti's offer, they do not have to accept it. And non-voting savings investors will presumably fight tooth and nail in the courts if their rights are infringed.

But the answer also lies with regulators and politicians. So far, Consob has done moderately well in ensuring fair play. But its chairman, Luigi Spaventa, made an error in accepting an invitation to see Massimo D'Alema, Italy's prime minster, just before a crucial regulatory ruling. The appearance that politicians were trying to interfere in the bid has hardly enhanced the market's confidence in Consob's independence.

Mr D'Alema himself made another mistake, initially seeming to favour Olivetti. He is now wisely promising neutrality. But the big test will occur if a foreign white knight enters the fray. Would the government then waive its golden share for Olivetti but not for the foreigner? The proof of this pudding will be very much in the eating.

**United Biscuits/EMI**
Share prices relative to the FTSE All-Share index




Source: Reuters

### Brazil

Brazil is belatedly trying to draw a line in the sand. Arminio Fraga, the new central bank governor, has raised interest rates once more – from 39 to 45 per cent – but made it clear he expects them to fall from here.

And talks with the International Monetary Fund on a renegotiated pact have been concluded. Though details have not been divulged, investors expect the government will set a clear monetary framework, including an inflation target, and promise further fiscal tightening worth about 1 per cent of gross domestic product. The combination has helped the Real rally from $2.20 to $1.99.

But will this be enough? The country is still in a parlous state. The economy will shrink about 4 per cent this year and higher interest payments will increase the budget deficit to a huge 8-9 per cent of GDP.

That said, higher inflation will help to erode the government's fiscal problem. And the acute recession, coupled with the real's 40 per cent devaluation, will turn around the current account numbers. The trade balance has already moved into surplus. That should eventually allow the currency to stabilise, while the central bank will buoy it in the short run through limited intervention.

Unfortunately, this all comes at a severe cost to the population. As ever, there is a risk of political repercussions as that pain grows. So far Brazil has avoided adopting market unfriendly policies such as capital controls or default. But investors need to remain wary.

### EMI

EMI is likely to face a barrage of calls from bewildered investors this morning. Many shareholders had been hoping the group would appoint a heavy-hitter from the entertainment industry to take the group by the scruff of the neck following a lacklustre period. Instead, the company has appointed as executive chairman a man who is neither from the industry nor obviously a heavy-hitter. Eric Nicoli, currently chief executive of United Biscuits, has seen his shares underperform by 80 per cent since he assumed the post.

The apparent justification for this appointment is that choosing somebody from Hollywood would have put EMI insiders' noses out of joint. In particular, Ken Berry, who runs EMI's music business, might have left. Even if one accepts that argument, the question remains why EMI did not choose a heavy-hitter from outside industry. The suspicion will be that the company could not attract a big name given that it is surrounded by an endless swirl of takeover speculation. At least Mr Nicoli is used to that: UB has been considered a bid target for donkey's years. And he certainly will not have the problem of having to live up to high expectations.

ALBRIGHT PLANS TO CALL ON SPECIAL ENVOY IF ALBANIANS SIGN PEACE SETTLEMENT

## US may send Holbrooke to press Serbs over Kosovo

By David Buchan in London and Guy Dinmore in Belgrade

The US plans to send special envoy Richard Holbrooke to Belgrade later this week to press President Slobodan Milosevic into accepting the Kosovo peace settlement, provided Washington can first get ethnic Albanian leaders to sign it.

Hasim Thaci, the chief Kosovo Albanian negotiator at last month's peace talks in France, said yesterday in Tirana, the Albanian capital, that his team's consultations had taken "a very positive direction towards signing a deal".

But timing of an Albanian signature remained uncertain, with some commanders of the Kosovo Liberation Army (KLA) yesterday debating the issue inside Kosovo while Mr Thaci and other KLA leaders were in Tirana.

One possibility was the Albanians' political leaders would sign today when US envoy Chris Hill and Joshka Fischer, foreign minister of Germany, which holds the European Union presidency, visit Pristina; and that KLA leaders would sign in Tirana or even in Washington where they are due later this week.

Sent to Kosovo last week to increase bipartisan US pressure on the Albanians, Robert Dole, the former Republican nominee for the US presidency, told Albanian leaders they would be more welcome in Washington if they first signed the peace deal.

The US wants Albanian acceptance of a peace settlement in order to step up pressure on Belgrade which is threatened with Nato air strikes if it eventually proves to be the main obstacle to peace. In a strategy session on Saturday with Robin Cook, the UK foreign secretary, Madeleine Albright, the US secretary of state, said she wanted to use Mr Holbrooke, with his record of wresting concessions out of Mr Milosevic, to nail down Serb agreement to power-sharing in Kosovo and to the principle of an international peacekeeping force, before a second round of talks opens on March 15.

"We don't want the Paris talks to go another 18 days only to have the Serbs tell us at the end of it they cannot accept international peacekeepers," said one official after Saturday's Albright-Cook meeting, in reference to the first inconclusive 18-day round of negotiations at Rambouillet in France last month.

Belgrade's increasingly hardline press yesterday said foreign troops would be an affront to national sovereignty. It also accused Mr Dole of being an Albanian stooge, and suggested Serb negotiators might not even turn up in Paris next week unless Nato lifted its threats.

Western hopes of getting Russia to persuade Mr Milosevic to let in foreign peacekeepers faded a little after Mr Cook's talks in Moscow last week. Mr Cook came away with the impression that if Belgrade agreed to such a force, Russia would take part in it, but equally that Moscow was unwilling to make any special effort to get Belgrade's approval. Moscow has also reacted coolly to the western move to remove the Serb president in neighbouring Bosnia.

Serb president's sacking, Page 2

## China pins hopes for growth on higher domestic demand

By James Kynge and James Harding in Beijing

Chinese officials announced that stimulating consumer demand would be the main engine of economic growth this year but provided few details on how its people would be persuaded to spend more.

The National People's Congress, China's parliament, was given few details at the weekend on how a 7 per cent growth target would be achieved other than through a plan to make more consumer credit available from state banks.

The painful industrial reforms that lie behind China's ballooning unemployment and a general reluctance to spend are to be continued. A state-led investment programme in fixed assets, which was credited with supplying most of last year's official 7.8 per cent growth, is to be reined in.

Zeng Peiyan, minister for the influential state development planning commission, told the parliament that "no more industrial development projects should be examined and approved in 1999", apart from a handful of exceptions.

Economists said the ruling would tend over time to alleviate China's chronic problem of oversupply, which has been the main cause of deflation, price wars and plunging corporate profits.

But the more immediate impact of the order would be to reduce investment. Indeed, Mr Zeng forecast that total fixed asset investment would fall from 14.1 per cent to 12 per cent in 1999, and bank lending would also slow. This would tend to crimp rather than expand demand.

Reforms to state enterprises, which have caused millions to be laid off, are expected to continue. "Only with reform can we find a way out (of China's economic problems)," said She Jianming, director of macro-economic research at the state development and planning commission. He acknowledged that one of the chief by-products of reform was weak demand. This was because workers have found themselves with little spare cash as state sector payments for housing, medical care, education and pensions have been reduced or withdrawn.

Economists said that even with easier consumer credit available, a prevailing sense of job insecurity may inhibit spending. The Industrial and Commercial Bank of China, one of the big four state banks, has begun offering a new consumer credit service for luxury goods.

Xiang Huaicheng, the finance minister, reiterated the government's commitment to a "pro-active fiscal policy". Although the state media has said that a new infrastructure bond issue is likely, evidence of strain on China's finances suggests that Mr Xiang may be reluctant to increase domestic debt levels.

Editorial comment, page 15

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Doves being released in Manila during a Catholic rally to urge the Philippine government and communist rebels to resume peace talks. AP

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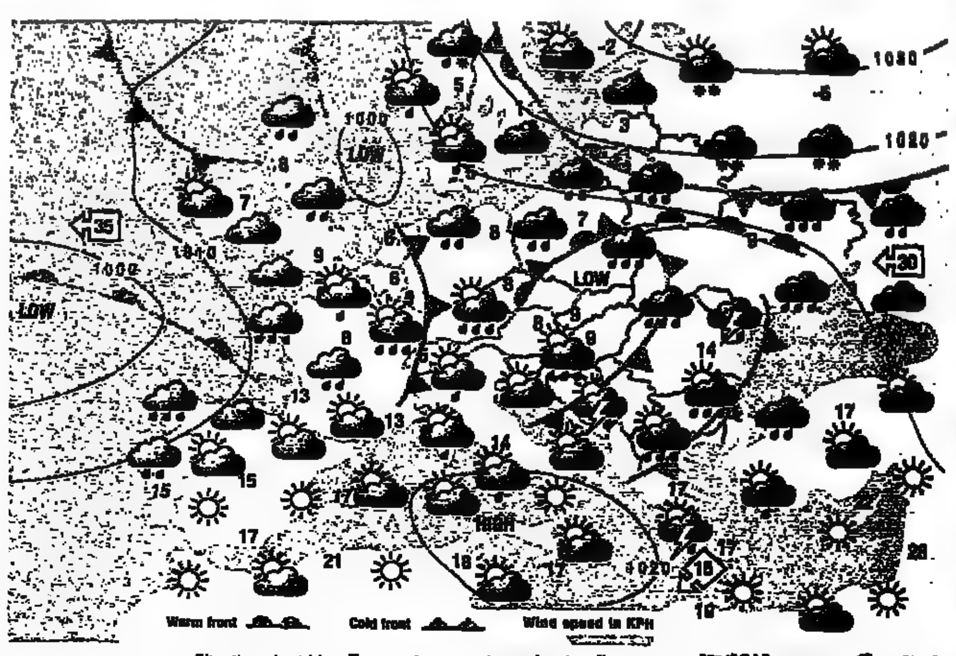
FT WEATHER GUIDE

***Europe today***

North-west Europe will be chilly with showery rain, and snow showers over Scandinavia and over higher ground elsewhere, especially the Alps. Rain will spread across eastern Europe, some of it heavy and thundery. The eastern Mediterranean will have some heavy showers or thunderstorms. Central and most western regions of the Mediterranean will be dry with some sunshine, but rain will spread across the north-west of Iberia.

**Five-day forecast**

Heavy rain will spread across western and central Europe, and there will be heavy snowfalls over the Alps. It will be drier and warmer in most areas by the end of the week but heavy showers will return to the west and the Iberian peninsula. Eastern Europe will stay unsettled, but showers will clear from the eastern Mediterranean.




Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

**TODAY'S TEMPERATURES** (Maximum Celsius)

| | | |
|---|---|---|
| Abu Dhabi | Sun | 24 |
| Accra | Fair | 33 |
| Algiers | Sun | 21 |
| Amsterdam | Rain | 6 |
| Athens | Fair | 17 |
| Atlanta | Sun | 8 |
| B. Aires | Fair | 31 |
| B.ham | Fair | 8 |
| Bangkok | Sun | 34 |
| Barcelona | Sun | 17 |
| Beijing | Fair | 11 |
| Belfast | Shower | 7 |
| Belgrade | Shower | 11 |
| Berlin | Cloudy | 7 |
| Bermuda | Shower | 17 |
| Bogota | Fair | 19 |
| Bombay | Sun | 33 |
| Brussels | Shower | 6 |
| Budapest | Fair | 11 |
| C.hagen | Shower | 5 |
| Cairo | Fair | 28 |
| Caracas | Fair | 29 |
| Cardiff | Shower | 8 |
| Casablanca | Fair | 23 |
| Chicago | Fair | 1 |
| Cologne | Shower | 9 |
| Dakar | Fair | 23 |
| Dallas | Shower | 21 |
| Delhi | Fair | 32 |
| Dubai | Sun | 25 |
| Dublin | Fair | 7 |
| Dubrovnik | Shower | 15 |
| Edinburgh | Shower | 6 |
| Faro | Fair | 17 |
| Frankfurt | Fair | 8 |
| Geneva | Shower | 5 |
| Gibraltar | Fair | 17 |
| Glasgow | Shower | 8 |
| Hamburg | Fair | 8 |
| Helsinki | Snow | -2 |
| Hong Kong | Fair | 26 |
| Honolulu | Fair | 27 |
| Istanbul | Shower | 14 |
| Jakarta | Cloudy | 33 |
| Jersey | Shower | 10 |
| Johannesburg | Fair | 27 |
| Karachi | Sun | 28 |
| Kuwait | Sun | 23 |
| L. Angeles | Fair | 17 |
| Las Palmas | Fair | 22 |
| Lima | Cloudy | 28 |
| Lisbon | Shower | 15 |
| London | Cloudy | 8 |
| Luxbourg | Shower | 5 |
| Lyon | Shower | 8 |
| Madeira | Fair | 19 |
| Madrid | Fair | 15 |
| Majorca | Sun | 18 |
| Malta | Sun | 17 |
| Manchester | Shower | 8 |
| Manila | Shower | 32 |
| Melbourne | Sun | 24 |
| Mexico City | Sun | 28 |
| Miami | Fair | 23 |
| Milan | Sun | 12 |
| Montreal | Sun | -3 |
| Moscow | Cloudy | -5 |
| Munich | Fair | 9 |
| Nairobi | Fair | 30 |
| Naples | Fair | 18 |
| Nassau | Fair | 25 |
| New York | Sun | 1 |
| Nice | Shower | 12 |
| Nicosia | Fair | 21 |
| Oslo | Shower | 8 |
| Paris | Shower | 8 |
| Perth | Shower | 24 |
| Prague | Shower | 8 |
| Rangoon | Sun | 37 |
| Reykjavik | Fair | 0 |
| Rio | Fair | 31 |
| Rome | Shower | 14 |
| S. Frsco | Rain | 18 |
| Seoul | Fair | 10 |
| Singapore | Fair | 32 |
| Stockholm | Cloudy | 1 |
| Strasbourg | Fair | 9 |
| Sydney | Shower | 24 |
| Tangier | Fair | 21 |
| Tel Aviv | Sun | 26 |
| Tokyo | Fair | 15 |
| Toronto | Sun | 1 |
| Vancouver | Rain | 8 |
| Venice | Sun | 11 |
| Vienna | Fair | 8 |
| Warsaw | Rain | 7 |
| Washington | Fair | 9 |
| Wellington | Shower | 20 |
| Winnipeg | Snow | -5 |
| Zurich | Fair | 7 |

# Maintaining the pace in drive for more reforms

**The next few months are crucial in the country's efforts to keep the momentum of the hard-earned gains achieved in the past two years. Kevin Done and Theodor Troev report**

Deadlines are looming for Bulgaria. In the past two years, the country has pulled itself back from the abyss of economic and financial disaster. Its success in stabilising the economy in the wake of the collapse of the banking system and the lurch into hyperinflation in early 1997 has exceeded most expectations.

The imposition of a currency board which fixed the lev, the Bulgarian currency, against the D-Mark and now against the euro, has imposed financial discipline. The central bank can no longer print money. And pressures from some quarters calling for devaluation and removal of this straitjacket are being firmly resisted by a government determined to hold on to its newly-won credibility.

But concerns are growing that some of the initial sense of urgency has begun to be dissipated, precisely at the moment when the most difficult challenges are looming.

Crucial steps to privatise large sectors of state-owned industries, the state-owned banks and utilities must be taken in coming months if the momentum of the reform drive is not to be lost and the hard-earned gains of the past two years in combatting inflation and restoring confidence in the currency are not to be frittered away.

Bulgaria has achieved macroeconomic stability, but the government has still to set the country on the path of sustainable growth.

The centre-right government, led by Prime Minister Ivan Kostov's Union of Democratic Forces, was swept into power two years ago amid widespread public anger and unrest at the failure of the former Socialist administration to tackle the country's daunting reform agenda, and its inability to counter a rising wave of corruption and organised crime.

Together with the short-lived caretaker administration led by Stefan Sofianski, the Mayor of Sofia, which paved the way for early elections in spring 1997, the Kostov government has laid the foundations for the country's recovery. Its resolve will be severely tested in coming months, however, if it moves, as promised, to liquidate those loss-making industries for which no buyers can be found under the current privatisation programme.

Alexander Boshkov, deputy prime minister and one of the main driving forces in the reform effort, says that there are around 20 state-owned companies on the so-called isolation list – enterprises that have been cut off from receiving further bank loans – in sectors including steel, chemicals, mining and engineering that must be dealt with by the end of June. The companies have a total workforce of around 50,000. "There are only two exits, either privatisation or death. We must either sell them or put them into liquidation."

The biggest challenge is posed by the huge Kremikovtsi steel works near Sofia, which still employs about 16,000 people. Its fortunes have been hard hit by the steep fall in world steel prices and the threat of anti-dumping actions from the European Union.

Negotiations have been under way for months for the steel plant to be taken over by Erdemir, the Turkish steel producer, but a solution must still be found to deal with Kremikovtsi's mountain of debts totalling more than $280m. "This is the most critical and the most uncomfortable period of the reforms," says Mr Boshkov, "whatever we do will give a reason for outcry, because we must close or sell some big companies for one dollar. Many people can lose their jobs. It is not like introducing a currency board."

Alexander Boshkov, deputy prime minister: most uncomfortable period of the reforms

While dealing with the biggest loss-makers, the Bulgarian government must also make progress in attracting vitally needed foreign investors, which have largely shunned Bulgaria during the past decade of economic and political turmoil.

There are some hopeful signs. Several European telecoms groups are still in the hunt to acquire a majority stake in BTC, the state-owned telecoms utility. Final bids are due to be submitted in a couple of weeks in what the government hopes will be this year's flagship privatisation deal, that can act as a catalyst for other foreign investors.

Mr Boshkov also insists that three of the remaining four big state-owned banks will be privatised by the end of the year. The government is seeking to sell majority stakes of more than 67 per cent in all the banks.

Bank privatisation has proceeded more slowly than hoped, but the sale of a majority stake in Post Bank was completed last year. And international investment banks are working to secure the privatisation of both Bulbank, the dominant state-owned bank, and Express Bank headquartered in the Black Sea port of Varna during 1999.

Despite the turmoil in emerging financial markets during the past 18 months, Bulgaria has emerged relatively unscathed from the crisis triggered by the upheaval in Russia. The government's success in stabilising the economy – in contrast to the continuing economic woes in neighbouring Romania – is winning increased interest from abroad, not least from neighbouring Turkey. But the sheer volume of deals and reforms that the government is seeking to complete this year will be a severe test of foreign investors' appetite for Bulgarian risk.

Many key infrastructure schemes in particular in sectors such as electricity generation and distribution, water supply, district heating and waste management are coming close to fruition, but the government is still to show that it is capable of overcoming bureaucratic inertia and the resistance of entrenched interest groups to get such projects off the ground.

"We must put our foot on the pedal. It cannot be a year of idling along, it must be a year of action," says one leading local banker. Mr Kostov and Mr Boshkov insist that they are pushing hard to ensure that the deadlines set as part of the $864m, three-year support package agreed with the International Monetary Fund last autumn are not missed.

For the moment, efforts are being strongly focused on the search for new owners. Several different teams of foreign financial advisers and management consultants, in many cases with European Union funding, are working against the clock in Sofia to fulfil privatisation mandates, many of which are due to expire at mid-year.

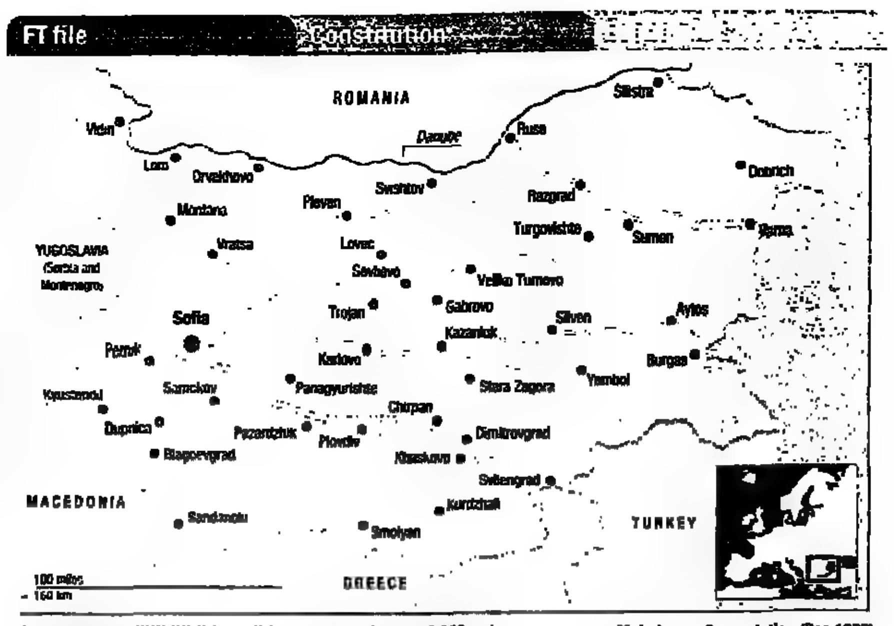
There are serious concerns among senior government officials that the formidable task of enterprise restructuring could be interminably delayed, however, if equity sales prove elusive and companies end up instead in court-administered bankruptcy procedures.

The weakness of the judicial system in general has proved a severe impediment to change, and industrial restructuring through liquidation could seriously delay the reform programme.

Some diplomatic observers in Sofia are concerned that the reform effort could also be slowed by the approach of local elections in the autumn, which will be held amid signs that the badly fragmented opposition parties are beginning to find common ground from which to attack the government.

But Mr Kostov dismisses such fears. He stresses that the main burden of legislative change encompassing the reform of the public administration and the civil service will be completed by the end of July. "Whatever the risks, we don't want to take into account the coming elections. We must carry out the reforms," he says. "If we became scared because of elections and stop, that would be a catastrophe and devastating for the country."

## FT file




### Constitution

▪ Official name
Republic of Bulgaria

▪ Legal system
Based on the constitution of July 1991
▪ National legislature
Unicameral National Assembly of 240 members, elected by proportional representation. The United Democratic Forces, led by the Union of Democratic Forces, is the largest electoral coalition in the assembly, with 137 deputies; the Democratic Left, led by the Bulgarian Socialist Party, ranks second with 58 seats; the Alliance for National Salvation, led by the Movement for Rights and Freedoms, has 19 seats; the Euroleft has 18; the Bulgarian Business Bloc is now no longer a parliamentary faction, and those eight members who have not joined other groupings now stand as independents
▪ Electoral system
Universal direct suffrage from the age of 18
▪ National elections
October-November 1996 (presidential) and April 19 1997 (parliamentary); next parliamentary election due by April 2001; next presidential election due in October 2001
▪ Head of state
Petar Stoyanov, elected president in November 1996
▪ Prime minister
Ivan Kostov (UDF)
▪ National government
A United Democratic Forces (UtdDF) coalition, including the Union of Democratic Forces (UDF), the Bulgarian Agrarian National Union (BANU), the People's Union - the Democratic Party (DP) and Anastasia Moser's Agrarians - the Bulgarian Social Democratic Party (BSDP) and the ethnic Turkish Initiative Committee for Renewal (ICR), renamed the National Movement for Rights and Freedoms (NMRF). It has a parliamentary majority with 137 seats

Sources: Economist Intelligence Unit; Datastream/ICV

▪ Area: 110,993 sq km
▪ Language: Bulgarian
▪ Population: 8.4m (1996 off. est)
▪ Currency: Lev (Lv)
▪ Exchange rate:
1998 average $1=Lv1752.194
February 25 1999 $1=Lv1763.096

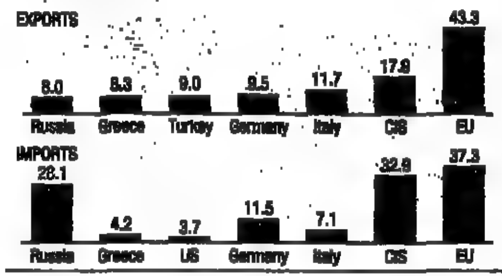
▪ Main towns & population (Dec 1992)

| | |
|---|---|
| Sofia (capital) | 1,115,000 |
| Plovdiv | 341,000 |
| Varna | 308,000 |
| Burgas | 195,000 |
| Ruse | 170,000 |
| Stara Zagora | 151,000 |

### Economic summary

| | 1998 (est) | 1999 (est) |
|---|---|---|
| Total GDP, nominal ($bn) | 11651 | [illegible] |
| Real GDP growth (annual % change) | 4.5* | 3.7* |
| GDP per head ($) | 1409 | 1686 |
| Inflation (average annual % change in CPI) | 22.3 | 5.2 |
| Industrial production (annual % change) | -3.0 | 3.9 |
| Agricultural output (annual % change) | 0.5 | 1.0 |
| Unemployment rate, registered (% of labour force) | 12.0 | 12.7 |
| Money supply, M1 (annual % change) | 2.6 | 5.0 |
| Foreign exchange reserves ($m) | 2850 | 3080 |
| Budget balance (% of GDP) | 0.0 | -2.9 |
| Total foreign debt (% of GDP) | 87.0 | 73.9 |
| Current account balance ($m) | -161 | -315 |
| Merchandise exports ($m) | 4318 | 4311 |
| Merchandise imports ($m) | [illegible] | -4987 |
| Trade balance ($m) | -210 | [illegible] |

Main trading partners (share of total trade to world 1997)




* Bulgarian Ministry of Finance

**FOREIGN POLICY** by Kevin Done

# Still hurdles to overcome

**The country has much catching up to do, especially in economic reform and the judiciary, before it can join the EU**

Bulgaria remains well behind the first group of fast track reform countries in central and east Europe that have already entered formal negotiations on joining the European Union. However, it has begun to close the gap during the past two years.

The latest assessment from the European Commission is broadly positive about the progress that has been made since the change of government in the spring of 1997, but it spells out that Bulgaria still has a lot of catching up to do.

The judgment from Brussels is that Bulgaria now fulfils the political criteria, although further efforts are needed in the fight against corruption and in the reform of the judiciary.

It is in the area of economic reform that "much remains to be done", however, according to the Commission. A leading western diplomat in Sofia is concerned that many in the government and the administration "still do not realise the huge task that lies ahead. Only a few people understand the size of the problem".

The Commission's latest report concludes that Bulgaria would "still face serious difficulties in coping with the competitive pressure and market forces within the Union in the medium term.... The relatively recent introduction of reform means that the process cannot yet be considered as well established."

Prime Minister Ivan Kostov says that, for the present, the ultimate timing of EU membership is not so crucial. "What is important is to proceed as fast as possible with the reforms that are needed in Bulgaria any way. We are viewing Nato and EU membership as a means to help us to carry out the necessary reforms," he says.

He insists that much has already been accomplished that Bulgaria has not yet been given credit for and says that much of the legislation for reforming the civil service and the state administration, for modernising taxation and customs will all be in place by the end of July.

The road to both EU and Nato membership will be a long one, and there remains some scepticism in government circles about the willingness of Nato to maintain its "open door" policy for a second wave of entrants from east Europe, once membership for the first group, comprising Hungary, Poland and the Czech Republic, is formally completed at Nato's Washington summit next month.

"If a step forward (for the countries excluded from the first wave) is not made in Washington, the candidates will consider this as a closed door and not an open door," says Nadezhda Mihaylova, Bulgaria's foreign minister. "The open door policy must find more substance. We hope that by the time of the summit there will be a strategy (for closer integration) and a mechanism for achieving it."

While determinedly pursuing the ultimate goal of Nato membership Bulgaria is taking the chance to co-operate closely with the international community in its current efforts to bring a peaceful resolution to the conflict in neighbouring Serbia's southern province of Kosovo.

Bulgaria is ready to negotitate its participation in a Nato peace-keeping operation in Kosovo and has previously offered its airspace to provide an air corridor for any Nato activities in Serbia. The Bulgarian parliament has given the government its support to negotiate on concrete military and political actions with Nato.

While the prolonged conflict in neighbouring Serbia overshadows the security agenda in the Balkans, Bulgaria has managed to make significant progress in its bilateral relations with some of its other Balkan neighbours, in particular Macedonia and Turkey.

Nadezhda Mihaylova, foreign minister: ready to negotiate

Last month, Bulgaria and Macedonia finally succeeded in resolving the long-running language dispute that has undermined their relations for several years and has made it impossible for the two countries to sign any treaties since the early 1990s.

They have signed a joint declaration of principles, which allows them to sidestep the thorny issue of Bulgaria's unwillingness hitherto to recognise the Macedonian language and nationhood.

The agreement removes an important running sore from the complex arena of Balkan politics and has resolved the last major dispute in Bulgaria's relations with its neighbours.

Bulgaria was the first country to recognise Macedonia as an independent state when it broke away from former Yugoslavia in 1992, but longstanding fears of inflaming Macedonian minority issues inside Bulgaria or of reviving longstanding nationalist claims to each other's territory had prevented Sofia from recognising the Macedonian language, which, in turn, had stopped the signing of any bilateral treaties.

The formula that has been agreed by Bulgaria and Macedonia will allow the countries to sign bilateral treaties in the languages recognised by the two countries' constitutions.

More than 20 bilateral agreements had been held up by the language dispute during the past six years, but deals have already been signed in recent days on a double taxation treaty, on the encouragement of investments, on a consular convention and on co-operation between the two countries' foreign ministries.

The deal has been accompanied by a Bulgarian gift to Macedonia's army of 150 tanks and a similar number of artillery pieces, which had been decommissioned as part of Bulgaria's moves to cut its own forces, as it strives to join Nato.

Relations with neighbouring Turkey have become much closer in the past two years and economic links are flourishing. Disagreements over the demarcation of part of the border between the two countries have been solved, a free trade agreement came into force at the beginning of the year, and Turkish companies are fast becoming some of the leading foreign investors in Bulgaria.

**POLITICS** by Kerin Hope

# International profile gets a much needed lift

Privatisation and a bigger role for foreign investors are seen as the way forward by both the ruling centre-right government and the opposition party

Power politics (left to right): Petar Stoyanov, president of Bulgaria, Ivan Kostov, prime minister, Alexander Tomov, leader of the Euroleft party, and Georgi Parvanov, leader of the Bulgarian Socialist party

Ivan Kostov, Bulgaria's centre-right prime minister, is not quite halfway through his four-year term. But his coalition government has already outlasted many of its predecessors in the stormy political decade which followed the collapse of communism.

Mr Kostov, a former finance minister, keeps a tight grip both on his own Union of Democratic Forces, and its four smaller coalition partners.

Despite periodic strains, an effective working relationship with Petar Stoyanov, the country's president, who is also a UDF man, has helped to raise Bulgaria's international profile as the country strives to be included in the next round of expansion by Nato and the European Union.

The government's task of stabilising the economy has been made easier by a political consensus on the need for reform. Even the former communist Bulgarian Socialist Party, which was ousted in the elections of 1997 after its disastrous policies resulted in hyper-inflation and widespread social unrest, backs privatisation and a bigger role in the economy for foreign investors.

"There is consensus on the big decisions that have to be taken," says George Prohasky, head of the Centre for Economic Development. "The differences are in the details."

But instead of exploiting consensus to push through painful structural changes quickly, Mr Kostov postponed decisions on closing loss-making state factories with sizeable workforces. Now, the hard choices are due to be made by July, a few months before the UDF faces the first test of its popularity at local elections.

Bulgaria's fragmented left-wing opposition is trying to form an alliance to field joint candidates against the UDF at the local elections. The BSP and the Euroleft, a centre-left splinter movement seeking support from Bulgaria's new entrepreneurial class, have made a start on patching up relations.

The BSP is still split by party infighting as Georgi Parvanov, its moderate leader, struggles to throw off its communist legacy and build a social democratic platform. Many of its supporters are elderly pensioners who have little sympathy with the new leadership. Prominent former communists, such as Zhan Videnov, the former prime minister, still command loyalty, although they have been relegated to secondary posts.

"We have to become a much more attractive modern party to put up a fight with the Bulgarian right," says Mr Parvanov. The much smaller Euroleft party has attracted some younger BSP voters, but its support is confined mainly to the cities. Its leader, Alexander Tomov, a former deputy prime minister, who broke away from the BSP as communist attitudes resurfaced, sounds confident the local elections will give his party an opportunity to broaden its power base. He hopes, eventually, to head a left-of-centre coalition to challenge the UDF at the next parliamentary election.

Mr Parvanov and Mr Tomov are already united in attacking the government for having staged a purge of civil servants and local government officials to gain control over the public administration. The UDF, however, claims that former communists tried to block reforms at every level and sweeping changes were needed to implement them. "Mr Kostov has established one of the most bureaucratic regimes in Europe," says Mr Tomov. "Everything is tightly controlled."

Bulgaria's constitutional court last year revoked a controversial clause on "lustration" included in legislation on the public administration which had passed in parliament. The "lustration" ruling would have banned former communist officials from working in the public administration, even in junior posts, and would have opened up many more jobs for UDF supporters.

Mr Kostov sets a high priority on modernising Bulgaria's legal system, which became a barrier to economic reform and foreign investment because of inefficiency and a reputation for corruption. But the government faces criticism over judicial reform on the ground that the supreme judicial council, the body responsible for supervising prosecutors and judges, is dominated by UDF supporters.

Regulation of the electronic media is another controversial issue, following complaints that the national media council, which will act as regulator and have responsibility for issuing broadcasting licences, is dominated by pro-UDF members. Bulgaria is planning to offer licences for two nationwide terrestrial television channels, including to international media groups.

Mr Stoyanov, who plays an important role in public policy-making, says the media council was set up to operate independently of the government. He personally selected four of its nine members, while the remainder were voted in by parliament. "As president, I would not allow discrimination on political grounds," he says. "But on the other hand, I won't allow any nostalgia for the past on the part of the communists."

**BANKING** by Kerin Hope

# Big push towards privatisation

The IMF is pressurising the government to quicken its privatisation pace following the sector's near-collapse

Bulgaria is preparing to sell three profitable state-owned banks this year, with the aim of speeding recovery in the sector after the disastrous collapse of half the country's banks less than three years ago.

Two state banks have already been sold to foreign investors, but the government has come under pressure recently from the International Monetary Fund to quicken the pace of bank privatisation. With total assets amounting to only about 35 per cent of gross domestic product, Bulgaria's banking system desperately needs an infusion of capital and know-how.

The Bank Consolidation Company, a repository for shares of state-owned banks, has appointed Austria's Creditanstalt Investment Bank, Credit Suisse First Boston and Deloitte & Touche, the international accountant, to advise on the sale of a majority stake in Bulbank, Bulgaria's biggest bank.

HSBC Investment Bank and Arthur Andersen, the international accountant, were chosen as advisers in a second attempt to sell a majority stake in Express Bank, based in the Black Sea port of Varna. Hebros Bank, a regional bank in the southern city of Plovdiv, is to be be sold through direct negotiations with a short-listed bidder.

Peter Jotev, BCC's chief executive, hopes that a flexible approach on the size of equity stakes offered will encourage investors.

"We're targeting strategic investors for the sale of at least 50 per cent plus one share in each bank, and we expect to sell about 5 per cent to management and employees."

Mr Jotev says he is confident that "after a year without any turbulence" all three banks will attract offers from foreign banking groups seeking to expand in eastern Europe. Greek and Turkish institutions, which have started to build a regional presence in the Balkans, are particularly keen to acquire a Bulgarian bank, he says.

However, another survivor of the crisis, Biochim Bank, will require a broad restructuring before it can be offered for privatisation, he says.

Following a balance-sheet clean-up carried out with assistance from ABN-Amro of the Netherlands, the BCC has appointed Glendale Consulting, an international financial consultancy, to improve Biochim's management, reduce staffing levels and cut the branch network under a two-year management contract.

While the Russian crisis had only a limited effect on Bulgaria's banks, the sector is still feeling the after-effects of the domestic collapse.

Deposits recovered after confidence was restored with the establishment of a currency board regime which fixed the lev to the D-mark – and from January to the euro – but banks remain deeply cautious about lending.

The sector's total assets increased by only 5.5 per cent in the first 10 months last year to $4.8bn. More than half the system's assets are held by state-owned banks, led by Bulbank with a share of more than 30 per cent.

**'Credit has grown in a very sane way – not very rapidly'**

The low capitalisation of Bulgarian banks, which have a total equity of about $620m, also acts as an obstacle to lending. While the central bank has strengthened banking supervision and regulations, the minimum capital requirement is set at just DM10m.

Martin Zaimov, deputy central bank governor, says "credit has grown in a very sane way – not very rapidly," as the government has stopped providing subsidies to state-controlled companies and a bigger percentage of lending has shifted to the private sector.

"Credit growth and broad money growth since 1997 has been very respectable for the first time since 1990. In between, there was outrageous bank lending, outrageous creation of money by the central bank, outrageous inflation," he adds.

The European Bank for Reconstruction & Development led the way for foreign investors, taking a 35 per cent stake in United Bulgarian Bank in the first privatisation deal, alongside Oppenheimer & Co of the US with 30 per cent. The remaining 35 per cent is held by Bulbank.

The first Greek investment in a Bulgarian bank came last year through a joint venture between Alico, the life insurance subsidiary of AIG, the US financial services group, and Consolidated Eurofinance Holdings, the Swiss parent of Athens-based EFG Eurobank, which is controlled by the Latsis oil and shipping group.

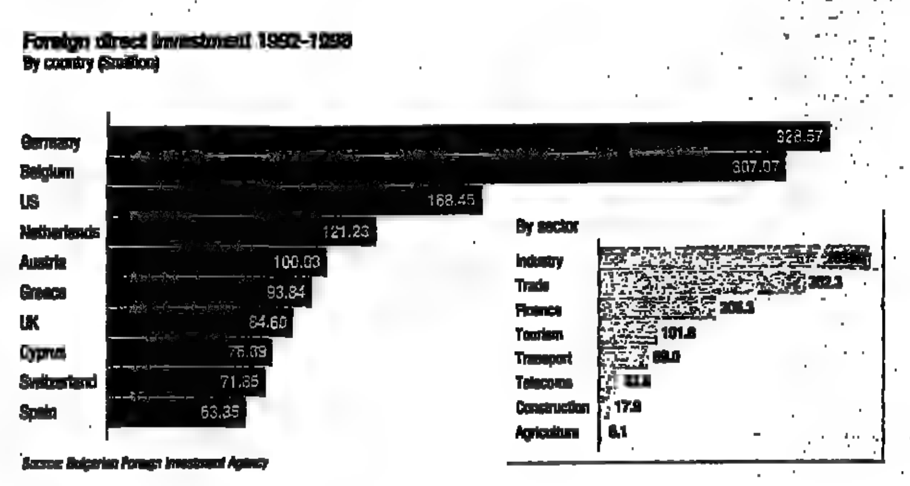
AIG and Latsis agreed to pay $38m for 78 per cent of Post Bank when bidding reopened after the collapse of negotiations with Nomura International of Japan. They have undertaken to increase the bank's capital by $50m and make a long-term commitment to ownership.

With more than 100 branches and deposit-taking offices, and access to more than 2,000 points of sale at post offices around the country, Post Bank's new owners have a ready-made distribution network to launch AIG's insurance products in Bulgaria. Alico is setting up a Sofia-based subsidiary following the acquisition of Post Bank.

Vladimir Vladimirov, Post Bank's chairman, says the capital increase will allow the bank to boost corporate lending to local and foreign companies. "For example, we are an obvious candidate to lend to Bulgarian Telecommunications Company. But it hasn't been possible because of our small capital base." The EBRD also has a 20 per cent stake in First Investment Bank, the country's fifth-largest private bank and one of the few which appeared to weather Bulgaria's financial crisis without difficulty. FIB has an international credit rating and is about to raise $10m in fresh capital through a private placement with a strategic investor abroad.

Maya Georgieva, FIB's executive director, says the bank plans to raise €20m through a two-year syndicated loan. "We have increased our loan portfolio by about $40m," she says.

"In the past, everything was trade. It was short-term and not that risky. Now, most of our loan requests are for production."




**ECONOMY** by Kevin Done

# Currency board is a boost to stability

After the turmoil of recent years modest growth has resumed but progress is still hampered by bureaucracy

For the past two years, Bulgaria has provided the economic success story the International Monetary Fund has so lacked in other parts of the world, as emerging markets have lurched from one crisis to another.

When government ministers are asked about their commitment to the reform process, the reply is invariably that the targets have to be met because they are stated in the agreement with the IMF, the programme is open and transparent, and it is publicly available on the government internet site, in both Bulgarian and English.

Certainly, the economic policies of the past two years have represented a clear break from Bulgaria's recent chaotic past, which was marked by severe banking and foreign exchange crises, financial indiscipline, mounting budget deficits, towering losses in state-owned enterprises, stalled privatisation and, finally, hyperinflation.

The progress has been remarkable. Helped crucially by the introduction of a currency board in the summer of 1997 (which fixed the exchange rate of the Bulgarian lev to the D-Mark at 1,000 leva to 1DM and provides full foreign currency backing for domestic money in circulation), the centre-right government, led by Prime Minister Ivan Kostov, has brought much-needed stability to the Bulgarian economy. (From July 1 in a further reform, the lev will be redenominated to one new lev for 1,000 old leva).

Inflation as shown in the consumer price index had dropped to only 1 per cent in December year-on-year from 578.5 per cent a year earlier.

"The currency board system has brought stability to economic decision-making," says Martin Zaimov, deputy governor of the Bulgarian National Bank. "We can forecast far more. During the worst times you could plan for a couple of weeks only. Now people can plan years ahead."

Foreign exchange reserves have been rebuilt with international support from a low of $400m in January 1997 to more than $2.5bn. The private sector now accounts for about 67 per cent of gross domestic product (GDP), up from 42 per cent two years ago.

Backed by the restrictive terms of the IMF agreement the government budget achieved a surplus equivalent to 0.9 per cent of GDP last year. The target is to achieve a broadly balanced budget in the medium term. The government is forecasting a budget deficit of 2.8 per cent of GDP for 1999 taking account of various steps to cushion the blow of the tough structural reform measures that should be implemented this year.

Unemployment fell to about 11 per cent by the end of last year from 14 per cent a year earlier.

After the ravages of recent years, the economy began to show some modest growth last year. The progress is real but still fragile. The finance ministry currently estimates that GDP grew by 4.5 per cent last year, albeit from a shrunken base. Gross domestic product declined by 6.9 per cent in 1997 and by 10.1 per cent in 1996 in the final year of the previous socialist government.

According to figures from the European Bank for Reconstruction & Development, GDP in Bulgaria last year was still only 66 per cent of the 1989 level,10 years after the start of the transition from a command to a market economy.

*Despite the stabilisation* successes of the past two years, the daunting challenge still facing the government is to put Bulgaria on a path of sustainable growth at a time when the economy still faces tight external limitations.

Under the three-year, $864m IMF programme agreed last September, the government is targeting growth of 4-5 per cent a year, but Dimitar Radev, deputy minister of finance, accepts that that is unlikely to be achieved in 1999. Against the background of the slowdown in the world economy, the finance ministry is currently forcasting growth of 3.7 per cent.

The economy slowed sharply in the second half of last year. Industrial sales fell by 9.4 per cent in 1998 due to the fall in world prices for key exports, such as metals and chemicals. Exports fell by 12 per cent in value last year.

Activity is seriously constrained by the lack of capital. The banks, burned by their experiences in the recent years, remain very cautious lenders. They hold much of their assets as low-yielding deposits in German banks and in government securities, and new lending has been negligible.

Privatisation revenues should help to finance the current account deficit during the next two years, with the government seeking strategic foreign investors for assets such as the telecoms utility, the leading state-owned banks, Bulgartabak (the tobacco industry), the Neftochim oil refinery and Petrol (the state-owned service stations).

Greenfield site foreign investment will be urgently needed as the receipts from privatisation diminish, however, and it is crucial that the government makes progress on infrastructure projects in areas such as power generation and distribution, and municipal services, where foreign capital is also supposed to play a big role.

A key test of foreign investors' appetite for Bulgarian *risk should come later this* year with both the Republic of Bulgaria and the capital city of Sofia planning to make their debut on the international bond market. Acceptance of the bonds by international investors would provide a crucial vote of confidence in the current government's economic policies.

Stuart Eizenstat, US assistant secretary of state, warned on a recent visit to Sofia that the government still had to take many "courageous and painful economic decisions". Privatisation had been slow, bureaucratic and had lacked transparency. Efforts to reform the state apparatus and to root out corruption and red tape had to be intensified.

"Sustained, energetic reform" was critical, he said, but if it took place, "in a few years we may be describing Bulgaria as the Balkan Tiger."

**Foreign Direct Investment inflows by years**

| Volume ($m) | 1992 | 93 | 94 | 95 | 96 | 97 | 98* | Total |
|---|---|---|---|---|---|---|---|---|
| Total | 34,4 | 102,4 | 210,9 | 162,9 | 256,4 | 636,2 | 506,8 | 1909,7 |
| Privatisation | - | 22,0 | 134,2 | 26,0 | 76,4 | 421,4 | 155,7 | 835,7 |
| Capital market | - | - | - | - | - | 29,7 | 64,2 | 93,9 |

Source: Bulgarian Foreign Investment Agency * Preliminary

**BUSINESS & BUREAUCRACY** by Kerin Hope

# A slow process but improving

The country's business environment has taken a turn for the better during the past two years

Two years of stable government, together with a well-publicised effort to crack down on organised crime, have visibly changed the business environment in Bulgaria.

The "moutri", bull-necked former wrestlers in leather jackets who loitered outside resturants and shops in Sofia, have vanished. Their employers, Bulgarian insurance companies providing a cover of legality for protection rackets, were forced to shut down after the government tightened the regulatory framework for the insurance industry.

Reforms of the customs service and an overhaul of the tax system have helped to reduce the role in Bulgaria's economy of a half-dozen shadowy conglomerates which dominated business activity in the mid-1990s. Moreover, the withdrawal of the conglomerates from sectors such as banking and energy has contributed to a more level playing field for foreign investors.

"The business environment has improved dramatically over the past two years. There are still problems to be overcome with transparency, with taxation and with the bureaucracy. But in comparative terms, Bulgaria has become the best place to invest in this region," says John Munnery, managing director of Mobikom, a partnership between Cable & Wireless of the UK and BTC, the Bulgarian state telecoms operator which operates Bulgaria's analogue mobile telephone system.

Much has to be done, however, before Bulgaria can compete effectively with the fast-track transition countries of central Europe in attracting foreign direct investment.

The privatisation process offers opportunities for making acquisitions in a country with a skilled workforce and some of the lowest labour costs in eastern Europe. But investors complain the process is plagued by bureaucratic and legal obstacles, while decision-making by the privatisation agency which selects purchasers can be painfully slow.

"Approval of a deal by the agency's supervisory board is often delayed for weeks, even months, after the agency and the buyers have come to an agreement and even initialled a contract," said a recent report by the Bulgarian International Business Association, representing foreign investors in the country.

Strategic investors from abroad may be squeezed out by Bulgarian managers who are allowed to stage management and employee buy-outs on preferential terms.

These permit managers to put up only 10 per cent of the purchase price in cash with the remainder being paid in instalments over 10 years. "There have been cases of deliberate sabotage of foreign investors by not treating them fairly during company visits," adds the Biba report.

The government has included broad-ranging judicial reforms in a series of legislative packages aimed at gradually bringing Bulgaria's legal system, tax arrangements and public administration in line with the European Union.

But implementing reform is more difficult, and it will be some time before Bulgarian courts acquire the confidence and expertise to issue impartial judgments in commercial disputes, according to one Sofia-based consultant.

Banks, for example, face a long and costly process in foreclosing on collateral pledged to secure loans because of inefficiency in the legal system, and there is no alternative to court procedures when it comes to collecting receivables. "Experience has shown that you can't necessarily collect on collateral, so effectively you are lending without security," says a foreign banker.

Taxation remains complex, with corporate profits effectively taxed at rates above 35 per cent.

The tax system also suffers from idiosyncrasies, such as requiring expatriate employees to pay tax in Bulgaria on their worldwide income at high rates which reflect the disparity with local employees' salaries.

While modernising the judiciary and the civil service will help to improve transparency, Bulgaria, like other east European countries in transition, faces an uphill struggle to root out corruption in the public administration.

**'Bureaucrats have to be stopped from over-regulating,' says Ivan Vlahov**

The government has so far made organised crime the focus of its law-and-order campaign, rather than addressing the issue of corrupt practices in the bureaucracy, according to western businessmen.

"Unless there is an honest, efficient bureaucracy in place to administer new financial regulations or a new social services system, for example, new laws and regulations will have little effect," said Stuart Eizenstat, US assistant secretary of state on a recent visit to Sofia. "Efforts to root out corruption and eliminate red tape and inefficiencies that inhibit the growth of small and medium-sized enterprises are also essential."

Ivan Vlahov, spokesman for Coalition 2000, a non-governmental organisation leading an anti-corruption campaign in Bulgaria, says the public perception is that corruption is widespread among public officials and largely goes unpunished, but also that such practices are effective in getting things done.

Liberalising the business environment, through the introduction of simpler procedures, would reduce the opportunities for corrupt practices among midranking officials, he adds. These arise from Bulgaria's complex web of procedures for setting up a business and obtaining permits and operating licences, which businessmen say can sometimes be speeded up by offering "commissions" to low-paid officials in key posts.

The government's administrative reform programme should also include measures to make corrupt practices a criminal offence. "Corruption and bureaucracy have always been an obstacle to foreign investment in Bulgaria. Bureaucrats have to be stopped from over-regulating and their discretionary powers have to be reduced," says Mr Vlahov.

**AGRICULTURE** by Kerin Hope

# Ploughing more in investment

## The government says foreign companies wishing to invest in this sector will encounter less bureaucratic obstacles

Bulgaria's pro-market government has set aside traditional Balkan misgivings about the sale of land to foreigners and is actively seeking investment in the agricultural sector.

The lifting last year of restrictions on amounts of farmland purchased by foreign investors, together with measures to speed the issue of full property titles to pre-communist owners, should promote swifter consolidation of landholdings, says Ventsislav Vurbanov, the agriculture minister.

"We are committed to removing administrative and bureaucratic obstacles for companies willing to invest," he says, citing a US investment in a winery, Israeli projects in soya and maize production and a German seed-producing programme for industrial crops.

Yet, Bulgaria is still far from developing an active land market to support a market-oriented farm sector. Although 80 per cent of the 5.8m hectares of farmland available for restitution has been returned to pre-communist owners under a scheme launched in 1991, full titles have been issued for only 24 per cent.

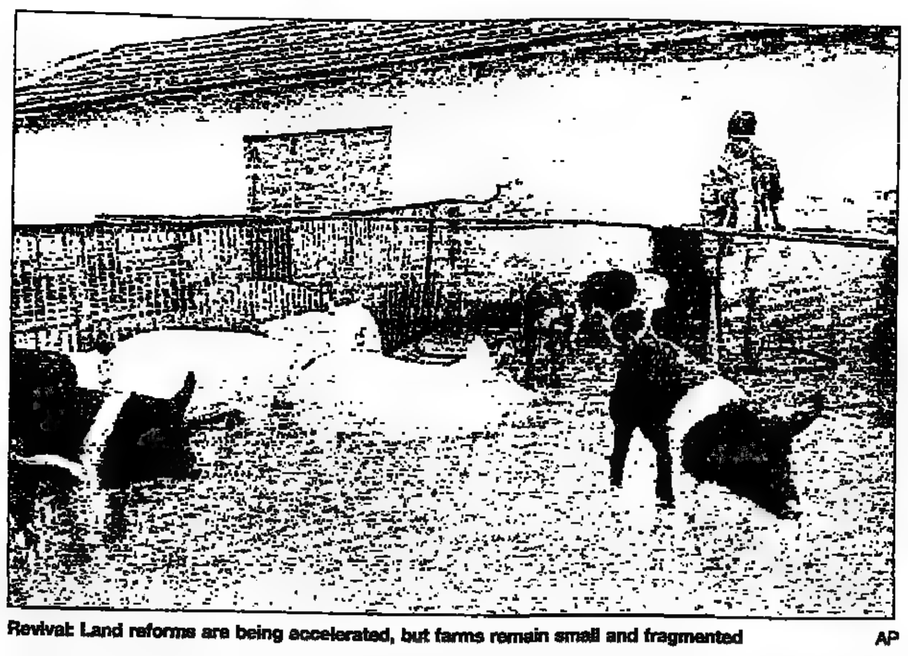
The long drawn-out restitution process has slowed development in one of the economy's biggest sectors employing about one-quarter of the workforce. Agriculture provided as much as 23.4 per cent of GDP in 1997 against 12.5 per cent the previous year, although the jump was also related to a sharp decline in industrial production.

Mr Vurbanov says issuing of titles has accelerated as owners are no longer required to follow lengthy bureaucratic procedures or pay for the documents, and should be completed by July. Restrictions on leasing land have been eased and a unified land registry is to be set up. The amount of land

**'We are committed to removing obstacles for companies willing to invest'**

returned is limited to 20 hectares for each owner, rising to 30 hectares in the wheat-growing region of Dobruja in northeast Bulgaria. But only about 5 per cent of Bulgaria's private farms exceed two hectares in size, while barely one per cent reach the EU average of 20-50 hectares.

About 60 per cent of Bulgarian households work a plot of land, often on a part-time basis. Pensioners have returned to the land to grow basic foodstuffs. But subsistence farmers lack access to credit for inputs or



Revival: Land reforms are being accelerated, but farms remain small and fragmented AP

equipment, and have trouble marketing surplus produce because of poor distribution systems.

The break-up of communist-era co-operative farms hit the dairy sector hardest. Most farmers have only two or three cows and produce limited amounts of fodder. To encourage enlargement of dairy farms, the government is providing DM84m this year in subsidised credits to farmers with more than 10 cows.

The cattle population has increased from 350,000 in 1996 to about 600,000 as Bulgaria emerged from an economic crisis which forced farmers to slaughter dairy animals for food. But dairy processors complain of difficulty in securing reliable milk supplies as almost two-thirds of milk production is for household use.

"The fragmentation of farms means the raw milk supply is very unstable," says Trayan Haladjov, chairman of Bulgaria's National Dairy Association. "Consolidation of farms has started, but it will take another three or four years before we see modern dairy units."

Modernising the dairy sector has become a priority as Bulgaria makes a start on agricultural restructuring with the aim of eventual EU membership. An EU ban on imports of dairy products from Bulgaria, imposed for health reasons, has highlighted the need to improve hygiene controls.

The product volumes involved are small, as Bulgaria exported to the EU only about 1,000 tonnes yearly of white cheese made from sheep's milk, compared with about 6,000 tonnes yearly to markets elsewhere, mainly in the Middle East.

But milk and yoghourt processors are under pressure from the government to bring their facilities in line with EU requirements. Bigger dairy processors have started to instal modern cooling equipment at milk collection points and upgrade tanker trucks to meet EU standards.

Bulgaria has liberalised farm prices and trade, although the cereals sector is still partially protected through price guidelines and state guaranteed loans. Cereal exports have suffered because of the lev's strength and a poor quality harvest last year..

Privatisation of food processing is under way but state companies still control more than 50 per cent of the sector. Many privatised companies face difficulty raising funds for new investment after being sold through management and employee buy-outs.

"The industry generally lacks modern equipment and knowhow to meet quality standards for western markets," says Antoaneta Simova, a researcher at the state Institute of Economics and Organisation of Agriculture.

The Russian crisis has underlined the problems facing producers and exporters of tobacco, wine and fruits and vegetables. With the exception of the wine industry which has succeeded in penetrating western European and US markets, agricultural exporters relied heavily on the Russian market. Last year, however, food processors were operating at about 15 per cent of capacity and "this year they can't afford to buy from producers," says Mrs Simova.

**ELECTRICITY** by Kerin Hope

# Action plan aims to raise power profile

## The energy sector is being restructured with the aim of targeting private investors

Bulgaria has finally made a start on restructuring the energy sector, with the aim this year of opening the market to private investors and of eventually reducing the Kozloduy nuclear plant's role in electricity production.

Higher electricity prices from January – a 14 per cent rise for households and 8 per cent for businesses – marked the first stage of a tariff increase agreed with the International Monetary Fund. This move is designed to match prices with costs by April 2001.

A medium-term loan agreement with the IMF also calls for splitting NEK, the state electricity company, into separate units to handle power generation, transmission and distribution.

Under a World Bank action plan for the sector, four thermal power plants would gain private operators by this year-end and a firm timetable set for disposing of the three remaining thermal plants and 22 small hydroelectric plants. "Our priority is to integrate the sector with EU requirements," says Metodi Konstantinoff, NEK's chief executive director. "But privatisation has to be a step-by-step process."

Foreign investors have shown interest in refurbishing and adding capacity to power plants at the Maritsa complex in southern Bulgaria, which run on local lignite, and in upgrading a 1,260MW coal-fired plant in the Black Sea port of Varna.

Thermal plants account for 4,350MW of NEK's 10,100MW installed capacity compared with 3,589MW at Kozloduy and 2,200MW of hydro capacity. Factory and municipally-owned power plants, which provide district heating in Bulgarian cities, add another 1,000MW of capacity.

The municipally-owned producers, which provide district heating for Sofia and other Bulgarian cities but make heavy operating losses, will also offer concessions to foreign operators which would invest in boosting output and upgrading distribution networks.

*Mr Konstantinoff says* NEK has set a September deadline to select partners for a $700m greenfield project to build a 600MW lignite-fired plant at Maritsa. It would be offered on a build-operate-transfer (BOT) basis with a 15-year operating concession. Meanwhile, the company has signed an agreement with Germany's RWE to develop a joint venture to refurbish an 810MW plant at the Maritsa East Two complex and instal 600MW of new capacity at a cost of about $200m.

Preliminary talks are under way with Entenergy of the US for a joint venture to invest $400m in refurbishing 840MW of existing capacity at Maritsa East Three, says Mr Konstantinoff.

Turkish contractors are to finance and build a 160MW hydro project costing $200m on the Gorna Ada river close to the Bulgarian-Turkish border, under an intergovernmental agreement which provides for exporting an annual 4bn KwH of electricity to Turkey for 10 years.

Domestic electricity demand rose marginally last year after a 12 per cent fall in 1997 and "should grow at 4-5 per cent yearly in the medium-term," says Mr Konstantinoff. But with extra capacity coming onstream, Bulgaria plans to become a bigger exporter of electricity to its Balkan neighbours.

The addition of considerable thermal capacity over the next five years should permit the closure of some units at the Kozloduy nuclear plant close to the Danube river in northern Bulgaria. But the timetable for shutting down its two oldest reactors remains a highly sensitive issue.

Bulgaria received an Ecu24m loan from the European Bank for Reconstruction & Development to improve safety and efficiency at four of the six units. But instead of shutting down the two oldest units at the end of 1998 as agreed, the government's energy committee decided to extend their lifespan until 2005, when the modernisation of units five and six is due to be completed.

"Apart from a massive cost to the budget at this point for closure and decommissioning, there's a strong prestige value in being able to operate a nuclear facility," says a western official.

**ENVIRONMENT** by Kerin Hope

# Big push towards clean-up operation

## Evdokia Maneva, the environment minister, is seeking loans to reduce the heavy pollution in some of the worst hot-spots

Bulgaria's mining and metal-processing industries, built to supply not only local markets but much of the former Soviet economic bloc, account for some of the country's worst environmental "hot-spots".

Scant attention was paid under communism to pollution of rivers and groundwater by mining waste or to emission levels from smelters operating close to residential areas. Farmland was polluted by emissions from metallurgical plants and by irrigation with contaminated water.

While a sharp decline in output at many ore-processing plants has reduced emissions, the problem of "historic" pollution persists. Evdokia Maneva, the environment minister, says the government accepts legal responsibility for past environmental damage but lacks funds to carry out clean-ups.

The successful launch of an environmental clean-up at UM Pirdop, Bulgaria's biggest copper producer, which is financed mainly through a $15m World Bank loan, has provided a model for rehabilitating the metallurgical industry as well as Bulgaria's biggest oil refinery and oil products distribution company.

Mrs Maneva is seeking about $100m in loans from international institutions to finance clean-ups at several plants on the government's privatisation list which are expected to attract foreign investors. These include Kremikovtsi, a steel producer near Sofia, and Gorubso, a lead and zinc mining complex in southern Bulgaria, as well as non-ferrous metal smelters in the southern cities of Plovdiv and Kardzhali.

Other serious polluters on the list of disposals are Neftochim, an oil refinery on the Black Sea coast near Burgas, which is the biggest in the Balkan region, Petrol, a petroleum products distributor, and Chimco, a chemicals complex at Vratsa, west of Sofia.

"Environmental audits for these plants show the situation is not the same overall," says Mrs Maneva. "The worst case is Neftochim, where the main problem is contaminated soil."

Cleaning up the Neftochim facility would cost about $30m, but outlays would be lower for other plants on the list. At Kremikovtsi, for example, the clean-up would cost about $700,000, she says.

Improvements are already under way at the Plovdiv and Kardzhali smelters, which are both situated near residential districts, to eliminate emissions containing heavy metals such as cadmium and lead.

Potential buyers would be required to refurbish plants to comply with EU emissions standards within five years, but would not have to contribute to the cost of cleaning up past pollution.

"Foreign investors would be scared of taking on some of these enterprises if they had the environmental liabilities round their neck," says a western official.

The clean-up at Pirdop, formerly one of eastern Europe's worst polluters, was negotiated as part of a privatisation deal, the first of a big metallurgical plant. Union Minière, the Belgian non-ferrous metals producer, acquired a controlling stake in Pirdop and is implementing a four-year, $25m environmental refurbishment financed through international loans to the Bulgarian government.

The cost to clean-up the Kremikovtsi steel plant near Sofia is estimated at $700,000 Ivo Hadjimishev

The programme includes draining and relining a tailings pond filled with 600,000 cubic metres of toxic waste, and covering a slag dump which blows toxic dust across the site. Contaminated soil has to be excavated and stored safely and the polluted remnants of an abandoned smelter and disused sulphuric acid plant will be dismantled.

The government's plans to seek foreign investment in the energy sector offer prospects for reducing air pollution in several cities from electricity and household heating plants fuelled by locally mined lignite. These plants emit high levels of dust and sulphur dioxide.

"As a sector, energy is the most polluting in Bulgaria," says Petko Tzvetkov, spokesman for Green Balkans Sofia, a Bulgarian environmental group. "Use of lignite is very widespread because it's much the cheapest fuel available."

The highest concentrations of sulphur emissions come from three power plants at the Maritsa East complex in southern Bulgaria operated by NEK, the state electricity company. Company officials say sulphur emissions have decreased by more than 10 per cent since the mid-1990s as a result of improved operating procedures and ash dumps have been sealed as part of a new environmental protection programme.

The European Bank for Reconstruction and Development has provided a €39m loan to help finance a €114m project to complete a lignite-fired unit at Maritsa East and fit equipment to remove sulphur dioxide emissions, in line with the govermnent's effort for gradual compliance with EU emissions standards.

"The biggest problem is with the oldest plants at Maritsa which need to be retro-fitted with desulphurisation equipment," says Petko Kovatchev of the Sofia-based Centre for Environmental Information and Education.

**TOURISM** by Theodor Troev

# Bigger emphasis on promotion and marketing

## The industry is aware it's not just sand, sea and skiing that will attract the tourists

Facing tough competition from neighbouring countries such as Turkey and Greece, and from the rising travel market of Croatia, Bulgaria's tourism industry is awakening to the reality that its long-term future cannot rely only on sun-and-sea or skiing package holidays.

With a shorter Black Sea summer season compared to the Mediterranean countries, and with a majority of its 117,000 beds being in run-down establishments – less than two per cent of all beds are in five-star hotels – Bulgaria needs to offer more of its wealth of untapped potential of special interest tours.

"Most of the foreign holiday makers in Bulgaria are not aware of its Thracian, Roman and Byzantine remains, its frescoed monasteries, its more than 30,000 cultural monuments, as well as its unspoiled mountains, lakes and nature reserves," say Boyan Manev and Blagovest Lefterov, former university lecturers in tourism who own SunShine Tours, a Sofia-based travel agency.

For the past months, they have focused their efforts on the preparation for the country's major cultural event this year, when Plovdiv, Bulgaria's second largest city, will be one of Europe's small cultural capitals. From May to July it will become a centre for international artistic performances.

"This will definitely put Bulgaria on the map as a destination for more discerning travellers, but we cannot rely on such unique events only," says Mr Manev, who is also a board director of the Universal Federation of Travel Agencies' Associations (UFTA).

"Our country needs constant national promotion and smarter marketing of its untapped opportunities." One of Mr Manev's former university students, Mariana Assenova, now deputy minister of trade and tourism, backs the idea that Bulgaria has to reposition itself from a cheap sea or skiing destination to a place for all seasons. "An American travel expert recently suggested that our motto should be 'Bulgaria has it all!' and I believe we have to build up our country's new image accordingly," she says.

Sofia's Alexander Nevski memorial church: a fine piece of architecture in the Balkans Kevin Done

Mrs Assenova pins her hope on the restructuring of Bulgaria's tourism sector that started last year with the support of the new pro-reform government.

A tourism law that took effect last August, was a step forward in harmonising the industry with European Union legislation.

The law set the rules for licensing and categorising of tour operators, travel agents, hotels and restaurants. National, regional and local councils on tourism were established to co-ordinate the interests of different institutions and companies, related in one way or another with the travel industry.

"Some of the regional councils are now participating for the first time this monthin the International Tourism Bourse ITB-Berlin where Bulgarian mountain towns are being promoted for cultural heritage tours to diversify our image from just a sun or skiing destination," says Mrs Assenova.

For the first time since Bulgaria started changing to a market economy in 1989, this year some money from the state budget has been allocated for national tourism promotion abroad.

The funding of 1.4bn leva by the cash-strapped government is modest, compared with about $20m a year the country used to spend for the same purpose in the 1980s.

"Still this is a sign of positive change and shows that the current government realises the importance of tourism promotion at a time when our competitors have the advantage of well-financed aggressive marketing," says Roumen Draganov, chairman of the Sofia Council on Tourism and former tourism undersecretary.

Mr Draganov promotes the creation of a comprehensive information system that would put Bulgaria's tourism facilities and sites on the map, including the mushrooming small private hotels and restaurants.

He believes that a revival of the domestic market would lead to increased turnover for the tourism establishments that, in turn, will boost investment in the sector and will help attract more foreign visitors as well.

Despite the lack of national promotion abroad in the past few years, in 1997 Bulgaria managed to reverse the trend of decline in arrivals and earnings from tourism. Out of 7.5m visitors in 1997 – the last full year for which comprehensive statistics are available – more than 2.3m were tourists, an increase of 6.6 per cent from the previous year. Direct earnings from tourism were $490m compared with $450m in 1996.

Most of the tourists came from Russia and Ukraine, as well as from some of Bulgaria's traditional western markets, such as Germany, Britain and Scandinavia. However, the crisis in Russia in 1998 led to a decline of Russian visitors estimated at 20 per cent.

"Now, we are trying to regain some of our other traditional markets in east Europe," says Mrs Assenova. "In the past few months, we presented our offers at tourism fairs in the Czech Republic, Slovakia and Poland and we notice a renewed interest."

However, in order to attract more upmarket visitors both from the west and from former eastern bloc countries, Bulgaria badly needs to upgrade and properly maintain many of its communist-era facilities.

A temporary solution has been to lease hotels to large tour operators such as TUI and Neckermann, which invest in their renovation.

A long-term solution is privatisation. The pace of disposing of state-owned facilities in the tourism sector has accelerated since the new pro-market government took office in 1997.

About 60 per cent of the assets owned by the Ministry of Trade and Tourism have already been privatised. The ministry has stated its intention to complete the privatisation by the end of this year.

"This sounds too optimistic," says Mr Draganov. "However, it is not so important to privatise everything by a formal deadline but to have clarity over who owns what afterwards."

Some hotels in the big resorts are sold without the adjacent land, so clear rules must be established about who will be in charge of managing and maintaining the infrastructure of the resorts.

PROFILE
**AMERICAN STANDARD**

# Sinking a big investment

American Standard is the exception that proves the rule in Bulgaria. While most foreign investors have shunned Bulgaria, the US group has invested heavily to make the country one of its key low-cost production sources to supply plumbing products to its markets in west Europe.

The manufacture of chinaware bathroom fixtures such as toilets, sinks, baths and shower trays, is a labour-intensive process and is proving increasingly costly in high wage countries.

To remain competitive and improve margins, the group is developing and expanding production in "strategically situated countries with lower labour costs" with the aim of reducing unit costs by around 25 per cent.

Two years ago, 80 per cent of American Standard's chinaware and bathroom fittings in Europe were made in high-cost plants in west Europe. By 2000, this share will have been cut to only 50 per cent, supported by its new plant in Bulgaria, the largest greenfield site investment in the country to date. The group formed its first joint venture, Vidima Ideal, in 1992, to make bathroom and kitchen fittings in Sevlievo in central Bulgaria. It bought a 77 per cent stake in Vidima itself in 1996 for $5.4m, when the company was privatised.

Turnover at Vidima has risen from $8.5m in 1992 chiefly in the former east bloc to $34m last year and the group plans to double sales to $68m by 2001. It now exports about 96 per cent of its output to west Europe. In the past 18 months, capacity has been doubled from 1.5m to 3m pieces a year.

The big advance in Bulgaria has come with the construction in 1997 of a $42m, 100,000 sq m china sanitaryware factory, also in Sevlievo. It is the group's biggest plant in Europe with a capacity to produce 2m pieces a year with a range of toilets, bidets, washhand basins, pedestals and shower trays. It is currently running at about 40 per cent of capacity with a workforce of 700, which will be raised to 845 at full capacity.

American Standard financed the $2.3m construction by Bulgargas of a 34km natural gas pipeline to connect the town of Sevlievo – and the new plant – to the main trunk line supplying natural gas from Russia to Bulgaria. The loan has been paid off by the supply of discounted gas.

Kevin Done



**WINE** by Kevin Done

# Raising the standards

## A modernisation programme has begun

The Bulgarian wine industry is finally beginning to attract the capital investment that is urgently needed to allow it to compete with the tough competition in European markets posed by the more affluent wine producers from the New World.

Of all the wine countries in east Europe, Bulgaria has been the most single-minded about directing its production towards export markets.

It had already carved out a significant niche in western markets before the fall of communism, in particular in the UK, which helped at least to cushion the collapse of a large part of its markets in the east bloc, most importantly in Russia.

The lack of investment during the past decade of economic turmoil and failed reforms has hampered the industry's development, however, and left it struggling to match the pace set by its international competitors, most importantly in the quality of its wines.

The economic stabilisation achieved in the past two years is helping gradually to improve the general investment climate in Bulgaria, and the first important projects aimed at renewing and modernising some of the country's leading wineries are under way.

Seaboard Corporation of the US, a diversified international agribusiness and transportation group, which is primarily engaged in pork and poultry production and processing in the US, has made its first foray into the European wine industry by acquiring a controlling stake in the Rousse winery in northern Bulgaria on the banks of the Danube. It paid $15m to acquire a 67 per cent stake late last year.

The most ambitious investment to date is being undertaken by Domaine Boyar, the largest Bulgarian wine producer and exporter, led by Margarit Todorov, who has played a crucial role in developing Bulgaria's presence in the UK wine market during the past two decades. "The Bulgarian wine industry is undercapitalised and investment is necessary to respond to the success of Bulgarian wine in the West," he says.

The investment is also intended to have a positive impact on the development of vineyards in Bulgaria, which have deteriorated over the past few years largely due to lack of capital and the slow pace of land reform, says Mr Todorov.

Based in the UK for several years heading Boyar International, the leading Bulgarian wine trader in Britain and continental Europe, Mr Todorov has won financial backing for the project from the European Bank for Reconstruction and Development as well as from ING, the Dutch banking group and Baarsma, the Dutch wine trader.

The $61.5m project is aiming to increase Domaine Boyar's own wine production from 27,000 tonnes of grapes crushed in 1997 to 65,000 tonnes by 2002 through the modernisation and expansion of its two existing wineries, and through the construction of a new winery on a greenfield site, which is due to begin operations in the autumn.

Boyar International, which is majority-owned by Mr Todorov, controls a 54.9 per cent stake in Domaine Boyar with a further 29.4 per cent held by Baring Central European Investments fund, which has invested $7.5m in equity capital. The EBRD and Baarsma hold stakes of 7.84 per cent after each contributing $2m in equity. In addition, the EBRD has made a loan of $19m and further loan financing of $9.5m has been provided by ING Barings.

The Domaine Boyar operation is a rare phenomenon in east Europe in that it started out as a marketing company and has only recently begun to integrate its operations back into wine production, first through the purchase of the two existing wineries at Shumen and Iambol, and now through the building of a state-of-the-art winery on a greenfield site at Sliven, in eastern Bulgaria, which has been designed by the A&G Engineering consultancy of Ron Potter, a leading figure in the Australian wine industry.

With the heavy investment in modern equipment and new capacity, Domaine Boyar is aiming to take Bulgarian wine sharply upmarket in the UK and other western markets. It has already launched its Premium Oak range of wines, enhanced by oak barrel fermentation, which have moved Bulgarian wine into the £4.99 to £6.99 per bottle price bracket in the UK.

Further ranges are being developed under the labels of Premium Cuvee and Premium Reserve and a £2m advertising campaign is planned for the UK market to be handled by M&C Saatchi.

Bogdan Mandjoukov, head of the Bulgarian Wine Producers Association, believes, that the industry will prove increasingly attractive for foreign investors. "I expect two or three French companies to invest here, both in wineries and in vineyards."

**TELECOMS** by Kevin Done

# BTC awaits privatisation call

## The deadline for final bids for a majority stake in the state-owned operator is near

Bulgaria's belated efforts to privatise the economy face a crucial test later this month when final bids are due to be submitted for the acquisition of a majority stake in BTC, the state-owned telecommunications operator.

The sale of a 51 per cent holding in BTC is the flagship deal in the privatisation programme and is a crucial condition for securing further financial support from the International Monetary Fund and the World Bank.

If successful, it will be one of the largest privatisation deals in east Europe this year, and the government is hoping that the transaction will act as a catalyst for attracting other foreign investors to the country.

A deadline of March 18 has been set to receive final bids. Four west European telecoms operators, Deutsche Telekom, KPN of the Netherlands, Telefonica of Spain and OTE of Greece, have entered negotiations with the government to determine the final terms and conditions for the acquisition, which is expected to value BTC at between $1bn and $1.5bn.

Antoni Slavinski, president of Bulgaria's Committee of Posts and Telecommunications, says that the government has "no ambition to keep a big stake" in BTC. It plans to sell a further stake of about 10 per cent to employees later this year and an initial public offering (IPO) of shares in BTC is planned to take place in two to three years in agreement with the strategic investor. The government has been advised on the deal by Deutsche Bank.

Most of the potential investors in BTC already have significant stakes in the east European telecoms sector. Deutsche Telekom is a shareholder in Matav, the Hungarian operator, KPN holds a stake in SPT Telecom in the Czech Republic, while OTE acquired a controlling stake in Rom Telecom in Romania last year; it also holds a stake in the Serbian telecoms operator.

In order to increase the attractiveness of BTC, the government is also offering potential investors a licence to establish a second GSM 900 mobile telephone network in Bulgaria in competition with Mobiltel, the existing GSM operator owned by private Bulgarian and Russian investors, Eastern Market Telecom, Bul Sym and First Financial.

BTC presently owns a 39 per cent stake in Mobikom, the longer established analogue NMT 450 mobile phone operator in which Cable & Wireless of the UK holds a 49 per cent stake. The government has ruled out offering the second GSM licence under a separate international tender and is determined that it should form part of the BTC privatisation deal.

All of the proceeds from the sale of the 51 per cent stake in BTC will go to the Bulgarian state. Bidders will compete both on price and on the terms of the investment programme to be committed to raise the quality of telecoms services in Bulgaria and to offer new products.

Bulgaria already has a high level of telephone lines installed at close to 35 lines per 100 inhabitants compared with other countries in central and east Europe. However, the quality of services is poor as only about 15 per cent of local-exchanges have been digitalised and party lines still account for around half of the network. Revenues per line are among the lowest in Europe. The privatisation of BTC is expected to lead to a reduction in the 26,000-strong workforce, but, according to Mr Slavinski, employment in the sector is expected to rise with the introduction of new services.

The strategic investor in BTC will be granted a monopoly on fixed line local, long distance and international voice telephony services until the end of 2002, when services are due to be liberalised.

According to preliminary estimates, BTC pre-tax profits rose to about DM150m last year on a turnover of more than DM550m, says Mr Slavinski. This compares with a profit of DM90m in 1997 on a turnover of DM370m. BTC has begun to raise the very low level of local call charges and to reduce the high cost of long distance and international traffic in an effort to rebalance its tariffs to prepare for future competition.

Monday March 8 1999

# Mastering
## INFORMATION MANAGEMENT

Part Six
Knowledge management

FINANCIAL TIMES

Next week
Electronic commerce

Welcome to Mastering
**INFORMATION MANAGEMENT**

**Part 6 of 12**

**This is the sixth part of our weekly series aimed at helping FT readers master the management of information and of the technology that captures, stores, distributes and processes it inside and outside their organisations.**

**So far we have looked at the changing information and competitive environment, the use of IT inside the business and along the supply chain, and the impact of IT on organisational structures (for a full synopsis of the series, see page 15).**

**This week we turn the spotlight on one of the hottest business topics at the moment: knowledge management (KM). Few these days deny the immense power of knowledge, but how do you share and apply it? How do you make tacit knowledge explicit, and convert one person's insights and wisdom into another person's awareness? How do you turn individual experience into organisational learning?**

**These are questions most companies are still grappling with, but grapple they must. "Delayering" and "downsizing" have resulted in a loss of corporate memory just as the pace of product innovation has increased. Fortunately, a range of technologies – such as the internet, groupware and teleconferencing – offer dynamic organisations the opportunity to gather and exploit knowledge profitably.**

**All the articles this week provide insights into the KM process and best practice, starting with Thomas Davenport and Donald Marchand's discussion of what some call the "knowledge hierarchy". On pages 4-6 Charles Despres and Danièle Chauvel attempt to clarify the many definitions of and approaches to KM. They offer a useful map on which companies can position their own initiatives. Michael Earl and Ian Scott's contribution (pages 7-8) is to examine the role of the model chief knowledge officer, and the personality required to do the job. Larry Prusak (pages 10-11) underlines the importance of showing quantifiable benefits from KM and proposes some ideas to make KM efforts "visible" inside organisations, while Peter Murray (pages 12-14) urges companies to start by defining the results they wish to achieve and then work backwards.**

**Finally, as well as our usual glossary (page 15), we have invited Philip Manchester, a regular contributor to the FT's monthly FT-IT reviews, to describe some of the software technologies that have influenced the development of KM. This appears on page 11.**

**More letters – this week in response to issues raised in Part 4, on IT in the supply chain – can be found on page 8. We welcome further correspondence from readers complementing or disputing points made by any of the authors – and, remember, a bottle of pink champagne is available for the best letter published in each issue. At the end of the series you will be invited to test your knowledge and skill with a competition, Have you Mastered Information Management? Please note that our website, *www.ftmastering.com* contains summaries of each week's material, plus additional background reading.**

*** You can e-mail us at editor.mim@ft.com or write to FT Mastering, 3rd floor, Number One Southwark Bridge, London SE1 9HL; for back copies please e-mail backissues.mim@ft.com or telephone +44 (0)181 688 6323.**

# Is KM just good information management?


**Summary**

Over the past 20 years or so, managers have had to master data processing, information management and knowledge management (KM). The more cynical among them – noting that KM has the same advocates and often uses the same tools as information management – suspect that nothing more substantial than "terminological inflation" is taking place. Part of the problem is that there is no hard and fast distinction between information and knowledge; information may be (theoretically) public and knowledge locked in people's minds, but for the purposes of KM they occupy a continuum of increasing value. And as **Thomas Davenport** and **Donald Marchand** point out, many KM projects have a significant element of information management; after all, people need information about where knowledge resides, and to share knowledge they need to transform it into more or less transient forms of information. But beyond that, KM does have two distinctive tasks: to facilitate the creation of knowledge and to manage the way people share and apply it. In the end, the companies that prosper with KM will be those that realise that it is as much about managing people as information.


**Thomas H. Davenport is professor of information management at Boston University's business school and director of the Andersen Consulting Institute for Strategic Change.**

**Donald A. Marchand is professor of information management and strategy at IMD International, Switzerland.**

The concept of "knowledge management" emerged several years ago at a time when managers' scepticism about business fads seemed to be at an all-time high. Was KM, they wondered, merely a different, more up-market label for information management? Their suspicions about the origins of KM were nurtured by several remarkable "coincidences":

- **Many early writers and speakers on KM (including the authors of this article) had previously written and spoken on information management**
- **Many tools deemed useful for KM (the internet, Lotus Notes, search and retrieval software) had also been widely used to manage information**
- **Much of the "knowledge" found in KM repositories looked remarkably similar to information resources previously held in paper form (for example, directories of experts in companies)**

An observer with an historical perspective might have been even more suspicious. For the previous 30-40 years of computer use in business, the information that had counted most was that which could be "automated", which was usually called "data" – highly structured, quantitative shorthand for real events and human attributes. What could be programmed and processed by modern computers in the form of "data" or "transactions" seemed more important than information confined to paper records and documents (which was nevertheless where most information resided).

In the 1970s and 1980s, as computer technology combined with networks and new software tools became available, businesses moved from data processing to information systems and document management. No sooner had people and organisations got the hang of dealing with data than managers began to aspire to "information management". Suddenly, when they were starting to master that, "knowledge management" appeared.

The sceptic could easily conclude that nothing more significant than terminological inflation was happening. After all, people had been talking about the "information age" since the advent of data processing; perhaps by the time organisations really got to the point of managing information, they needed to dignify it with the term "knowledge".

The question we address in this article, then, is whether KM is really different from information management. We will argue that there is a large component of information management in KM, and that much of what passes for the latter is really the former. However, true KM goes well beyond information management in several ways.

## A question of value

It may be useful to try to shed some light on these overlapping terms. Generations of philosophers have wrestled with the deep meanings of "knowledge"; as business school professors we feel obliged to offer a pragmatic definition.

Data, information and knowledge are points along a continuum of increasing value and human contribution. Data – the signals about human events and activities that we are exposed to each day – has little value in itself, although to its credit it is easy to store and manipulate on computers.

Information is what data becomes when we as humans interpret and contextualise it. It is also the vehicle we use to express and communicate knowledge in business and in our lives. Information has more value than data and, at the same time, greater ambiguity – as any manager will attest who has ever argued over how many interpretations the terms "customer", "order" and "shipment" can have inside the same company.

Knowledge is information within people's minds; without a knowing, self-aware person there is no knowledge. Knowledge is highly valuable, because humans create new ideas, insights and interpretations and apply these directly to information use and decision making. For managers, knowledge is difficult to "manage" in other people because (being mental) it is invisible and its extraction, sharing and use relies on human motivation.

In practice, it is difficult to determine exactly when data becomes information and when information becomes knowledge. We usually advocate spending little energy on classification and a lot of energy on adding value to whatever you have and advancing it along the continuum.

## What is managed in KM?

For a 1996 research project Thomas Davenport and colleagues examined 31 different "KM" projects, as they were called by their managers. What companies actually managed in these projects appeared to



## GLOSSARY

**application:** a piece of software designed to meet a specific purpose.
**bandwidth:** A network's capacity to carry data.
**business process re-engineering:** An approach to corporate change which emerged in the 1990s; it involves analysing companies' core processes and reassembling them in a more efficient way, without functional divides.
**chief information officer (CIO):** The senior executive in a company responsible for information management and for delivering IT services.
**client/server architecture:** A network in which computer processing is distributed among many individual PCs (clients) and a more powerful, central computer (server). Clients can share files and retrieve data stored on the server.
**collaborative software:** Groupware, such as Lotus Notes or Microsoft Exchange.
**computer-aided design (CAD):** Refers to any computer-enabled method of design; also called computer-assisted design.
**database:** A software package for storing data.
**data-mining:** The process of discovering previously unknown information from the data in data warehouses.
**data warehouse:** A place – virtual or physical – in which business information is gathered.
**e-commerce:** business transactions conducted electronically, including over the internet.
**enterprise resource planning:** An integrated system of operation applications combining logistics, production, distribution, contract and order management, sales forecasting, and financial and HR management.
**electronic data interchange (EDI):** Transmission of documents via any electronic medium using a set of standard forms, messages and data elements.
**e-mail.** A system that enables computer users to send messages to one another's machines; ideally it should allow them to attach files and find other users' mail addresses.
**extranet:** An extended intranet, based on internet-standard protocols, which allows access via the internet by people outside the enterprise.
**groupware:** Software that facilitates communication, co-ordination and collaboration among people.
**hardware:** The magnetic, mechanical and electrical components of a computer and its peripheral devices.
**hypercompetition:** Aggressive form of competition in which companies constantly try to redefine the competences needed for success in a particular market.
**internet:** *The* global computer network.
**intranet:** A private network within an organisation, often protected from internet traffic by a "firewall" (software that controls access from the outside).
**information systems (IS) strategy:** The identification and prioritisation of systems of applications for development.
**information technology (IT):** The hardware and software that is used to process information.
**knowledge management (KM):** A term with many meanings; it includes deliberate efforts to maximise an organisation's performance through creating, sharing and leveraging knowledge and experience from internal and external sources; see MIM 2 and 6.
**legacy system:** An old database or other application, probably superseded but still in use.
**local area network (Lan):** A network of computers in a relatively small geographical area.
**Lotus Notes:** A proprietary software that allows users to share many different types of unstructured and semi-structured information. Lotus is owned by IBM.
**mainframe:** The central processing unit of a large computer, usually receiving input from a number of terminals.
**marketspace:** The "marketplace" in e-commerce.
**microprocessors:** Complex electronic circuits that comprise a computer's central information processing unit.
**minicomputer (or "departmental computer"):** A type of computer that appeared in the early 1970s; a stage in the evolution from mainframes to PCs
**multimedia:** A combination of sound, graphics, animation and video used to display information on a computer.
**online:** Having a computer and modem, or accessible by someone with such tools.
**operating system:** A program that marshals the internal operations of the computeritself, allocating memory to work files, for instance.
**paradigm shift:** Term used to describe a complete re-thinking of the business or economic outlook, caused by a startling intellectual or technological discontinuity.
**PC:** It once meant "not IBM", then "not Macintosh" – now it refers to any personal computer.
**platform:** The sum of a computer's operating system, hardware architecture and software. It defines the applications that can be run.
**program:** A set of definitions and instructions that enable a computer to perform a particular task.
**protocol:** The language that one computer uses to talk to another.
**software:** The programs that are run on a computer system.
**value chain:** Concept widely associated with the management thinker Michael Porter which focuses on a company's internal processes and the interactions between different elements of the organisation. Analysis of it shows how and where value is added.
**wide area network (Wan):** A network of computers over a wide geographical area.
**worldwide web:** an application which runs on the internet; it provides a standard way of publishing and accessing information.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Your guide to Mastering
**INFORMATION MANAGEMENT***

**12-part series**



* All issues subject to change

Continued from page 12

ty", which was ranked second or third in all countries (except Germany, which ranked it eighth). "Revenue growth" was consistently ranked last. Taken together, this suggests that businesses are looking for high-margin market niches; these can only be sustained by companies that have something unique to offer, and this in turn requires companies to leverage knowledge.

So what should businesses do in the way of KM if they are aiming to be competitive? And what are the obstacles to achieving this? One message is clear from the Cranfield survey, case studies and current research: do not look to technology for the solution. Installing an intranet will not turn your organisation into a "knowledge company" (whatever one of those is). That is not to say that technology does not have role; it does, but it is never the primary role. Above all, KM is a "people and process" issue. Organisations that are reaping benefits from KM activities are those that have identified the agents of knowledge and have in effect embedded the "Dikar" relationships into their business processes.

Global companies, especially those that also have global customers, are making serious – and successful – attempts at this. Often such organisations have the necessary expertise to crack many issues but geography and organisational structure make it difficult to assemble all the relevant knowledge. Many organisations are certain that they have the knowledge but are unsure as to where.

One solution is "virtual teams". Properly constructed and focused, they can act as communities of best practice, something that many KM proponents advocate. Successful organisations are also insisting that the team runs with a formal learning loop as part of its activity, irrespective of whether it has succeeded or failed (there are lessons from both situations).

One obstacle to this is that project teams are often disbanded as soon as the project has delivered, largely because of time pressures on the members. This is wasteful because immediately after the project the team probably knows more about the issue in question than anyone else in the organisation. And the team itself may be in an excellent position to leverage further this knowledge.

A good example of an organisation that has brought together the various elements discussed so far is Zeneca, in the area of product licensing. Like all major pharmaceutical companies, Zeneca invests heavily in its own research and development (R&D). Increasingly its portfolio of drugs contains products that are under licenc e from other companies. Typically, around 20–30 per cent of revenue in the industry comes from "licensed-in" products.

The "route in" for a licensed product can be varied and complicated. During the Cranfield survey, Roger Lloyd of Zeneca's business development group reported that there were up to 15 legitimate contact points between Zeneca and prospective licensors. Approaches to Zeneca can run to thousands a year. The process for handling all this lacked focus and was vulnerable to duplication and misunderstanding. It was also too slow.

Just under two years ago, Fred Brown, Zeneca's internal KM consultant, initiated a KM approach to the issue. There were two bodies of knowledge that needed managing: the scientific and commercial knowledge, and the knowledge scattered all around the company about the status of any particular product under consideration.

The first step for Brown and Lloyd was to understand fully the process of transferring products and technology into the company's R&D and commercial activities. The next step was to secure agreement on the roles of knowledge owners and experts within that process. Clarifying ownership of each stage of the process and its key knowledge components was vital; only when they had fully understood the process, its owners and the knowledge required did Brown and Lloyd employ technology.

They created, in effect, a virtual global department – a community of the various experts needed to manage external investment activities. While they now act in concert with each other, the experts remain in their previous functional and geographical locations, where they are most valuable. The supporting technology (named "Concert") allows structured and managed contact to occur among the relevant experts and the project manager at each stage of the external investment process.

The results have already been rewarding. The weeding-out process is much sharper – serious evaluation which might lead to contractual commitment can involve up to 60 or 70 people, so making sure unsuitable candidates do not get far means that scarce expertise can be focused on what really matters. The Zeneca case also illustrates another important feature of KM – knowledge ownership. With a clear process, agreed ownership, and demonstrable security in the Concert technology, vital knowledge is now quickly available to the groups that need it.

In a true knowledge process, learning is critical. Zeneca intends Concert to be the basic repository of this learning. The company asserts that everyone in the investment process is now better informed; that corporate vulnerability arising from knowledge residing in one individual has been reduced; that knowledge and best practices are being shared; and that as a result individuals' contributions are becoming more valuable.

## The way ahead

Cranfield's current work on KM is based on a model that charts how well a business can manage information and knowledge. Basically there are three linked competences to consider: knowledge supply, knowledge exploitation, and knowledge strategy.

These link together in a "virtuous circle", in which the connections are themselves organisational competences. For example, there is a two-way relationship between knowledge exploitation and supply: exploitation needs should drive the supply agenda and supply opportunities should inform and enhance exploitation activities.

Early work indicates that many organisations are placing almost sole emphasis on supply issues; attempts to exploit knowledge are often made out of context (that is, they are not linked to company strategy) or are over-determined by technology-push. Another common weakness is that supply lacks strategic direction. This can lead to undirected accumulation of information in the hope, say, that a data-mining technology will reveal the knowledge.

Organisations are taking KM very seriously. According to the Cranfield survey, most chief executives reject the notion that it is a fad and spending on KM is set to rise by over 60 per cent in the next three years. The first companies to benefit from this expenditure will be those that locate KM within a balanced framework of competences.

● Copies of the survey report (which also includes details about the Economist awards) are available from the Information Systems Research Centre at Cranfield School of Management (+44 (0) 1234 75 4477).

## KM in Europe: no more "need-to-know"

Cranfield's KM research is based largely upon survey work carried out by the Information Systems Research Centre at Cranfield School of Management during 1997 and 1998, in association with Information Strategy magazine and Xerox.

After a review of the KM field a survey questionnaire was piloted with a number of multinational organisations then sent to companies across Europe. Information in the report is based on 260 responses plus additional analysis, interviews and related research. There was also collaboration with the Fraunhofer Institute in Berlin.

Half the survey respondents classified themselves as either chief executive, managing director or chairman.

### The main findings

The management of knowledge is expected to move steeply up the agenda of European corporations in the next three years.

Knowledge management emerges primarily as a people and process issue. 94 per cent believe it requires people to share what they know with others in the organisation. Traditional "need-to-know" cultures are becoming obsolete – 85 per cent did not agree that people should only be informed on a "need-to-know" basis.

There will be a significant increase in European corporate KM spending – by an average of almost 70 per cent – in the next three years. There is also a consistent belief that the number of knowledge workers will increase significantly during that period.

Gaining competitive advantage is ranked as the most important application of knowledge to business objectives. Second comes increasing profits.

Around 85 per cent of companies believe a value can be attached to business knowledge and over 90 per cent claim to have plans to acquire and exploit knowledge assets. There is increasing awareness of the need to address KM in a more formal way than at present.

European companies believe knowledge is primarily an integral part of business processes, with 85 per cent asserting that knowledge is not an extension of IS/IT. IT will nevertheless have an important role in future for integrating knowledge-sharing.

Businesses need more knowledge about customer needs and preferences than anything else. Eighty-nine per cent ranked this as "very important", while the remainder judged it to be "important". Most organisations (61 per cent) believe that much of that knowledge is already inside the organisation.

"People" and cultural issues dominate as both the necessary means for – but also the key obstacles to – sharing and exploiting knowledge. Forty per cent of respondents do not rate their company at all as a "learning organisation".

The survey identified up to seven overlapping approaches to KM. The main ones are knowledge as an intellectual asset, teams in virtual organisations, and process approaches (usually assisted by technology); others are strategic, technological or philosophical, and knowledge as an HR activity.

Sixty-two per cent of respondents believed that KM is not a fad, while 14 per cent are still waiting to make up their minds. Nevertheless, knowledge managers' actions will be crucial if the early good work is not to be dismissed as a passing fashion.



# information management?

be a mixture of information, knowledge and perhaps a little data. 80 per cent involved the creation of some kind of repository, which held a wide variety of items that employees might find useful: best practices, competitive intelligence, sales presentations, product documentation and even cafeteria menus and bus schedules.

Many companies explicitly strove for "one-stop shopping" – a single location for all the useful content anyone could desire. Certainly, much of it would need further digestion and interpretation before being considered high-value knowledge; therefore, it was probably information. But simply locating desired information in a large collection is one means of adding value.

Some repositories included what might be called "information about knowledge". This is information that guides the seeker to knowledge, whether in the form of a document or an expert. So-called "knowledge maps" and "knowledge yellow pages" or expertise directories describe a set of knowledge categories, the location of the knowledge and, in some cases, its condition and value. If one believes (as we do) that the most important knowledge is in people's heads, facilitating access to it through improved information management is an important part of KM.

The primary reason for this close link between information and KM is that people in organisations are constantly converting knowledge into various forms of information (for example, memos, reports, e-mails and briefings) and acquiring information from others to improve their knowledge. This continuous conversion of knowledge into information and information into knowledge is required because people cannot always share their knowledge person to person. There are constraints involving personal time and attention as well as the number of people who must be kept informed across time zones and geographical locations.

In addition, since organisations exist to achieve predictable results, their members are encouraged to share their knowledge. This occurs through improved management of information about where knowledge resides, how it can be deployed and reused, and when it can create greater business value through new ideas and innovations.

Previous approaches to KM benefit from the use of IT and improved information management practices. Some companies excel by developing their capabilities to collect and organise information about knowledge, to provide broad access to it, and distribute it over distances. But there are other aspects of KM that distinguish it from information management and do not rely on computers or telecommunications networks at all (or at best only tangentially). Unfortunately, these are its most difficult aspects, and they are the ones that most strongly differentiate organisations. The truly distinctive aspects of KM fall into two key categories: the creation of knowledge and the use of knowledge.

## Knowledge creation

Knowledge creation is not a new subject, but it has recently been the subject of renewed investigation in the context of business. Books such as *The Knowledge-Creating Company* and *Wellsprings of Innovation* demonstrate a strong connection between knowledge creation and innovation in product and service development. Large Japanese companies such as Canon and Sharp and a few western companies such as Chaparral Steel and Oticon of Denmark have relied on knowledge creation to foster long-term innovation and strong business performance.

There are, however, bracing messages for companies wishing to replicate these companies' approaches to innovation. The Japanese companies that excel in this regard have a strong focus on tacit knowledge (essentially knowledge that is difficult to express in words); they motivate knowledge creation through bold visions of products and strategies coupled with organisational cultures that promote sharing, transparency and proactive use of knowledge and information. Honda, for example, used the phrase "Let's gamble" to guide the creation of a new city car model. Japanese companies also have human resource policies (such as rotation of employees around different functions) that support their emphasis on tacit knowledge. Western companies are not likely to adopt such practices easily.

Among the few western companies that specialise in knowledge creation and innovation, the sobering lesson is the pervasiveness of these orientations within their cultures. At Chaparral Steel and Oticon, for example, there is no "division of knowledge labour"; knowledge creation is everyone's job. Even the lowest-level worker is considered capable of designing production experiments and of working with customers to create new products and processes. There are no time clocks, no limits to sick leave, no special perks for managers, no specialists in knowledge creation.

Both companies have been very successful in their industries, but their growth may be constrained by finding workers who want to be "knowledge creators". Other western companies could try to emulate Chaparral and Oticon but doing so would require highly committed executives and large-scale change.

## Knowledge application and use

The other aspect of KM that differentiates it from information management relates to the way people apply and use knowledge in contrast to information. Knowledge, like information, is of no value unless applied to decisions and actions in a purposeful business context. Many companies have worked diligently to "stock the shelves" of repositories with information about knowledge. However, they have paid far less attention to how effectively employees apply and use their knowledge not just for operating today's business, but for generating new ideas about tomorrow's business.

Knowledge application and use is a complex issue with several different dimensions. One is cultural. Does an organisation's culture reward decisions and actions according to how people use and share their knowledge? Or is it content with widespread use of intuition and guesswork at the expense of organising people and processes to apply the best knowledge, experience and skills to projects and tasks?

Are new employees hired in part because they are willing and able to apply knowledge to their decisions and actions? Basic intellectual curiosity is difficult to inculcate if not already present, and hiring policies should reflect this. If, for example, a prospective employee has not reviewed material about a company before going to work there, it is unlikely that he or she will begin to consult information about knowledge resources after arriving.

Another determinant of knowledge use is the design of processes for "knowledge work". Planning, marketing, product design and development, consulting and other business activities depend heavily on knowledge. If knowledge workers feel that they have no time to use knowledge in the course of their work, or that it is inconvenient to do so, even the best repositories will not be used.

Essentially a company must create links between these knowledge work processes and its KM processes. Every key activity should be examined to see how knowledge is imported from human brains and information sources. Conversely, managers should look carefully at how knowledge acquired by people in the course of their work can be exported and shared in the form of reliable information with the rest of the company.

There are several ways to help ensure that knowledge is used in knowledge work processes. One is to create specific roles for importing and exporting knowledge. Some professional services firms, among the most aggressive of industries in adopting KM processes, have created such roles. Ernst & Young calls them "knowledge stewards", Andersen Consulting "knowledge champions"; in both cases they work on client projects and facilitate the application of knowledge.

Another strategy is to design knowledge-orientated analysis into the phases of a knowledge work project or process. Johnson & Johnson's Pharmaceutical Research Institute and W.L. Gore, the chemical company that makes Gore-Tex, have inserted reviews of knowledge already gained and knowledge still required into key points of the product development process.

A third approach to facilitating knowledge use is to program it into the IT systems that support knowledge workers. This approach was tried a decade ago in the "expert systems" movement; the most successful applications of that era had the objective not of replacing workers but supplementing their capabilities.

At General Motors and DaimlerChrysler, for example, designers of new car and truck models use a "knowledge-based engineering" system that embeds a set of design rules into the computer-aided design system. The rules might specify the relationship of the width of the vehicle to its wheelbase or might suggest that an existing component be used instead of designing a new one. The challenge in this type of project is to bring the entire organisation's design knowledge to bear while preserving room for individual creativity and innovation.

## The human element

There is no doubt that KM incorporates a strong dose of information management. The continuous conversion of knowledge into information and information into knowledge is a key element of what companies must do to develop and apply knowledge successfully. The use of IT to collect, organise and process information about knowledge is important in developing KM capabilities.

This is not a problem, as long as managers recognise the differences between information and KM and do not assume that one is interchangeable with the other. But if all of your KM efforts just involve better information management or use of the latest IT, then you may be limiting your company's potential to use its collective knowledge to innovate and expand the business. If knowledge resides primarily in people and it is people who decide to create, use and share their ideas to attain business results, then KM is as much about managing people as it is about managing information and IT. If you have not already come to this important conclusion about KM, there is a lot you may be missing.

## Further reading

Davenport, T.H. and Prusak, L. (1998) *Working Knowledge: How Organizations Manage What They Know*, Harvard Business School Press.

Leonard-Barton, D. (1995) *Wellsprings of Knowledge*, Harvard Business School Press.

Ikujiro Nonaka and Hirotaka Takeuchi (1995) *The Knowledge-Creating Company*, Oxford University Press.

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## This week



COVER ILLUSTRATION: David Cutter

# How to map knowledge management


## Summary

Knowledge management is a puzzling field. Companies that claim to be implementing KM programmes do very different things. And every year the number of KM books, articles and software products increases massively. The result is confusion over the definition of KM and vague, contradictory prescriptions as to what managers need to do. To clarify matters, **Charles Despres** and **Danièle Chauvel** undertook a research programme in which they closely analysed the academic, consultancy and business literature. They concluded that KM can be analysed along four dimensions: the process of cognition; the type of knowledge (tacit or explicit); the level of activity (individual, group or organisational); and the context in which the knowledge is used. These dimensions define a map of KM, on which companies' different activities can be plotted; in the end, KM just *is* the map. Companies implementing KM initiatives can use the map to suggest how they might extend them in future.



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Hughes is a successful US high-technology company that launched 11 satellites last year. But Arian Ward, Hughes' "leader of learning and change", claims that the company suffers from "islands of knowledge", deep pockets of expertise that have trouble developing synergies among themselves. *Accordingly he has helped establish a "Knowledge* Highway" to link these isolated islands. The Highway, which is at the centre of Hughes' approach to knowledge management, is an IT-supported network of company experts. The aim is to capture and share their knowledge in order to reduce product development cycle times.

Dow, the US chemicals multinational, has created a "Patent Tree" that maps the company's pres*ence and business opportunities in a market in* terms of the patents it holds. Since a major source of income for the company is to license its technology, it makes sense for clear information about its patents to be readily available to all departments. The company also monitors competitors and other researchers in the areas in which it does business, and has developed a "Knowledge Tree" that includes intellectual assets other than patents. Dow's objective is to understand its internal stock of expertise in order to exploit hidden business potentials.

Buckman is a speciality chemicals company whose frontline employees spend 80 per cent of their time in the field. Ideally, it would like to bring the full weight of its collective expertise to bear on each meeting with a client, so that its associates are more productive and its clients more satisfied. This has spurred a shift towards a more client-focused system of management, in which the sharing of knowledge is a fundamental imperative. Buckman is devoting significant resources to a worldwide intranet ("K'Netix") that distils its technical and customer knowledge in a continuously updated knowledge base. The objective is to develop more responsive, and more profitable, customer relationships.

The simple fact is that more and more companies are moving towards knowledge management (KM) in one form or another. Lew Platt, chief executive of Hewlett-Packard, has articulated the motivation for most in a now-familiar phrase: "If HP knew what HP knows, we would be three times as profitable." This is a persuasive argument, particularly as managers grapple with burgeoning networks of information and academics proclaim that intellectual capital is essential to wealth generation. Arguments abound to the effect that we operate in a knowledge economy, work for knowledge-intensive companies, and are all knowledge workers in one form or another.

All this has three discernible effects on managers:

- Some become anxious as time-honoured principles (such as the chain of command or the sanctity of one's "own" files) fall into disrepute
- Some dismiss "the fad" and claim they practise KM without employing the term (through IT systems, quality programmes, business process re-engineering)
- Some are convinced that their knowledge infrastructure is the only way to succeed in future

Managers' anxieties will not be eased by the fact that companies in the KM limelight, such as Hughes, Dow and Buckman, are developing very different approaches. There appears to be no universal way to adopt KM; those presented with the task are instead faced with a mosaic of options. If 21st-century management is on a knowledge-intensive journey, those on the path are taking very different routes.

KM is a turbulent, noisy field. Over the past decade, business and academic journals have recorded a 100 per cent per year rise in new KM articles, according to our research in UMI's ABI/Inform database. There are currently more than 1,800 different software products that carry the KM label according to John Blackwell, head of *IBM's KM practice for Europe, the Middle East and* Asia. E-commerce has even entered the scene: managers can now visit knowledgeshop.com to browse for search engines, document management systems, gurus, consultants or conferences (http://knowledgeshop.com/).

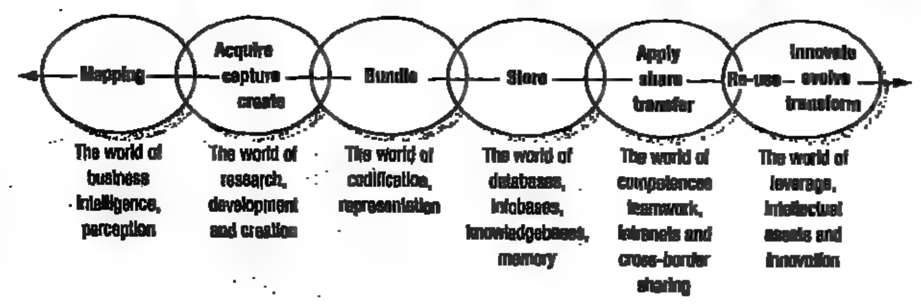
## Something old, something new

The first step in sorting out this bedlam is to recognise that there is, in fact, something important afoot. In 1991, for the first time, US expenditure on computers and communications equipment outstripped expenditure on all other industrial goods combined. Arguably, this marked the passage from one age to another – from the industrial era to the information era. Managers will increasingly confront the proposition that information and the creation of knowledge are the stuff of 21st-century enterprise. From this overwhelming conclusion there is no return.

The second step is to understand a sociological fundamental: when the principles that regulate a

**Continued on page 6**

## The knowledge process




**Mapping**
None of us, collectively or singly, is able to embrace the universe of information around us. Instead, we search for comprehensible nuggets of information in corners of the universe that we are familiar or comfortable with. In effect, individuals and organisations map out information environments of their own making.

**Acquire/capture/create**
From these environments we appropriate (and subsequently, perhaps, recombine) the most valuable nuggets of information. This stage includes personal or organisational search routines which locate the information that becomes the stuff of one's work.

**Bundle**
A variety of media are then available to bundle this information: paper, e-mail, voice, multimedia and so on. Before information can be bundled it must be interpreted by an author who seeks to infuse it with a coherent meaning before making it public. The critical issue is the meaning that others are able to extract and this is anything but a given.

**Store**
Individuals and organisations stockpile information in memory systems of various kinds. These range from brains, to hard disks, filing cabinets, libraries and data warehouses.

**Apply/share/transfer**
The field of KM implicitly recognises that information is social. There is no way of recognising data as information or knowledge outside some kind of social context. The field is also beginning to validate the notion that the value of knowledge depends on the actions to which it gives rise.

**Innovate/evolve/transform**
Knowledge must evolve to keep step with changes in the environment or else it will lose its value. This necessitates R&D programmes that build on experience in the marketplace, creativity processes that broaden intellectual horizons (such as those espoused by Edward de Bono), and so on.

# How smarter companies get results from KM


## Summary

Knowledge management can be plausibly broken down into five stages: data becomes information, which in turn becomes knowledge; knowledge results in informed actions, and these produce business results. According to **Peter Murray**, many knowledge managers make the mistake of "going with the flow", of concentrating on the supply of knowledge rather than the desired results. They would do better to start with the results and deduce what knowledge will be needed to achieve them. This falls into two categories: knowledge as a body of information (which can be readily processed by suitable IT and resides at the "data/information" end of the flow) and knowledge as knowhow (which requires good people management and is found at the "action" end). Reporting on Cranfield School of Management's recent survey of KM in European businesses, the author argues that KM is primarily a "people and process" issue. A particularly effective strategy is to create and nurture "virtual teams", which can leverage knowledge across geographical and organisational boundaries.


What most managers want first and foremost is results. Once they have defined the desired results the next issue is to determine what actions are needed to get them. With an action plan laid out the question then arises "What do we need to know to perform the actions?"

This approach of starting at the "results end", identifying the business pull-through and locating KM within that context was recently used in the "knowledge survey" carried out by Cranfield business school in association with Information Strategy magazine. The survey examined what European businesses are thinking, planning and doing in the area of KM; we will look at some of the results later in this article.

The "results end" approach also provided the framework for judgment in the Economist's annual KM Awards. Entrants were awarded most points for a clear statement of the business benefit they had achieved through KM, for demonstrating that the benefit was obtained by managing knowledge, and for showing how they measured the benefits. Many entrants failed at the first hurdle because their case for seeking an award was purely from the knowledge supply side; they failed to start by identifying the business benefit arising from KM.

## A results-driven KM model

Figure 1 (which is based on earlier work by Professor N. Venkatraman at Boston University School of Management) expands the above reasoning. Moving from left to right – the conventional interpretation of the model – indicates a useful aggregation of value, starting with basic data and leading to "informed actions" which in turn generate business results.

The Cranfield approach takes the opposite view. It starts with the desired business results and moves back from there. Besides preventing "technology push" (where strategy is blindly driven by technology) this approach avoids the creation of seas of unfocused data and information. The only information collected is that required for the actions.

Different views of "knowledge" create different scenarios for knowledge managers. "Knowledge" encompasses a range of meanings – from the philosophical to the commonsense. Confining the area of investigation to business narrows the range but still contains at least two working definitions: knowledge as "body of information" and knowledge as "knowhow", often referred to respectively as explicit and tacit knowledge.

### Knowledge as body of information

Starting from the knowledge box in the Dikar model and looking towards data and information, the knowledge manager has a set of issues to contend with which are different from the "upstream" view. An example would be where a worker at a research establishment has knowledge that the knowledge manager's company could benefit from in its own research or market planning. This could be knowledge about laboratory or survey work or something similar: it can be thought of as a body of information, formally written down and capable of being readily assimilated by the interested company's systems

The issues of KM here are: identifying the knowledge and its location; validating it and verifying its value; obtaining it in a useful form at a reasonable cost; determining where it is most useful in the business; making it available there in an appropriate form, using suitable technology; and ensuring that the knowledge is used beneficially. Knowledge defined this way is amenable to being processed by information technologies

### Knowledge as knowhow

Looking "upstream", the knowledge manager is concerned with the kind of knowledge that determines actions, and actions that need certain knowledge. This is the domain of knowhow, a more elusive form of knowledge which resides in peoples' heads.

An example could be a business which wants to move into a new overseas market. It will need someone who knows how to set up supply chains into that market quickly, who knows the business scene there, the relevant legal and tax factors, the culture and so on. This is primarily experiential knowledge, although some of it can be made explicit to a degree (for example, tax laws). Someone who knows the working relationship between businesses and a country's civil servants has knowledge that is hard to code.

In dealing with knowhow, the knowledge manager has to operate in a much more personal domain. The motivation to share hard-won experiential knowledge is not usually high; the individual is "giving away" their value and may be very reluctant to lose a position of influence and respect by making it available "to everyone".

Some managers are hopeful that as the information software and systems become more "intelligent" it will be possible to capture such knowhow. Suppliers of "knowledge systems" are keen to feed this hope. But the assumptions that all knowhow can be captured may be too simplistic. While at one level it is clear that rules that have evolved over time can be encoded, some behaviours owe more to "chaotic", intuitive factors than to predictable, universal reason.

A more complex variation on knowhow is the situation where knowledge is distributed among a team of people. Teams can be an effective way of generating learning and of marshalling and disseminating knowledge. Here the knowledge manager has to facilitate team activities, provide frameworks for more formal knowledge handling and ensuring that knowledge is recorded so that learning can take place.

Barriers to team-working are numerous. Two important ones that a knowledge manager has to address are geography, especially in global companies, and team members' perceptions that their real job lies elsewhere, which means that they ration the time they devote to teamwork. This leaves no space for formal steps such as recording and disseminating learning.

## Benefits arising from KM

As part of the Cranfield knowledge survey, European companies were asked to rank eleven possible benefits of KM programmes. Strikingly, "competitiveness" was ranked way above any other benefit. The only other contender was "profitabili-

Continued on page 14

Figure 1: The "Dikar" model

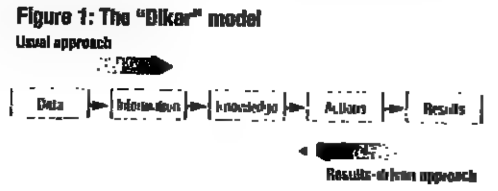
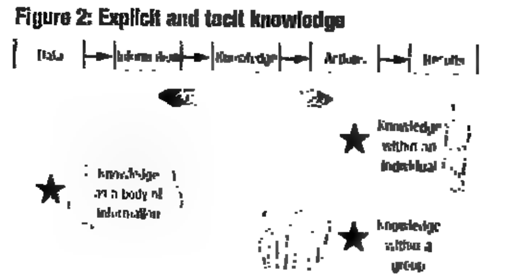
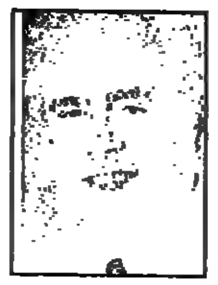



Figure 2: Explicit and tacit knowledge



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# How to map knowledge management

Summary

# The role of the chief knowledge officer

# Making knowledge visible



Continued from page 4

community are challenged, part of the community will cling to established ways while another part will embrace the new framework. No management group leapt wholeheartedly into management by objectives or business process re-engineering or any of the other organising themes in recent history. Instead, there was a period of uncertainty as advocates on both sides of the matter struggled to win the day.

KM is just the latest challenge to established business principles. But the uncertainty surrounding it is compounded by the fact that it appears to be a manifestation of a profound economic shift. This uncertainty expresses itself in four main ways:

**Diversity**
There are dozens of different approaches to KM, including document management, information management, business intelligence, competence management, information systems management, intellectual asset management, innovation, organisational learning and others.

***Relabelling***
Some companies have a confusing tendency to affix the KM label on previously familiar activities such as team building, career management, training and development, re-engineering, business process design, and so on.

**Broad remits**
The American Productivity and Quality Center has tried to clarify matters (in a survey published in September 1996) by outlining six KM strategies for companies: as an overall business strategy, as best-practice transfer, as personal learning, as customer intelligence, as intellectual asset management and as innovation. Is this clear? While we do not want to criticicise APQM as a whole, and we acknowledge that it has said more on the subject, its six strategies exemplify the fuzziness and "scatter" that characterises the KM field.

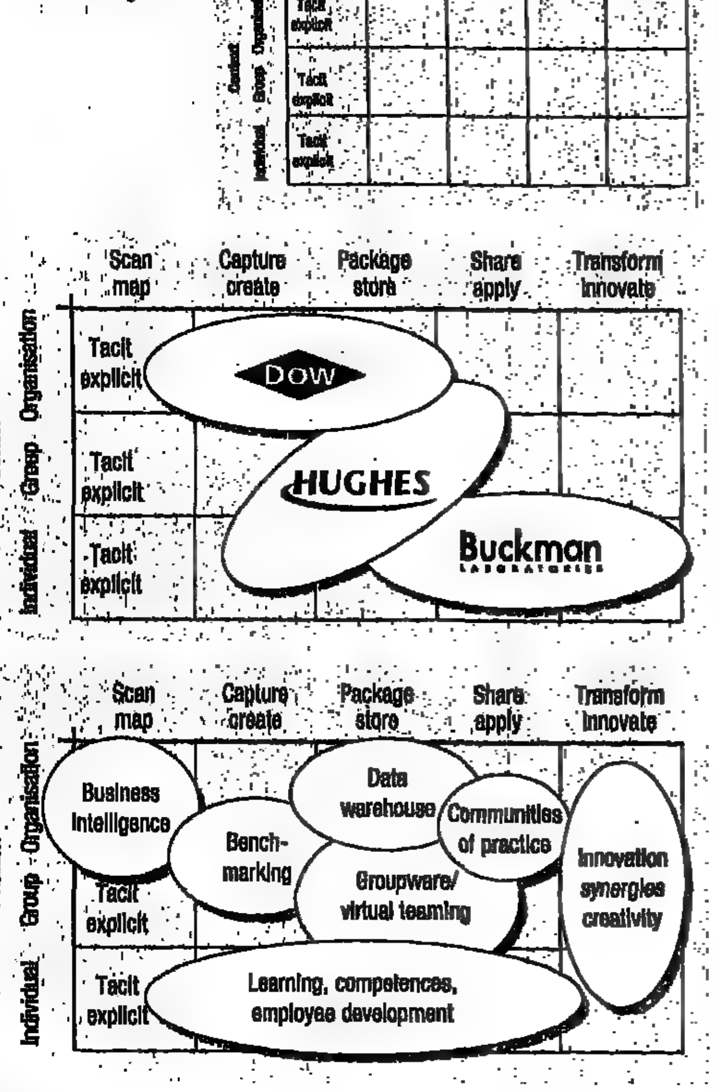
**Vagueness**
Finally, even casual conversations on KM stumble over the definition of knowledge itself. The next time a consultant speaks to you on the subject, ask him or her to define knowledge. As a follow up, question the implication that knowledge was previously unmanaged. The results can be enlightening.

Emerging phenomena are always fuzzy – particularly when their importance is fundamental – and KM is among the fuzziest to have arisen in recent times. But if one takes a bird's-eye view, KM's contours begin to emerge and the practical implications become clearer.

## Mapping KM

Beginning in September 1997, we undertook a research programme that explored the various aspects of applied KM in three specialist literatures: academic, consulting and practitioner. Our approach was to analyse the reports, cases, analyses and projections in the field and to make sense of the disparate programmes and areas of concern. Building on this, we developed a classification system that articulated the basic assumptions beneath the rhetoric. Our proposition is that the bulk of current thinking has four dimensions: "process", "type", "level" and "context".

Top: Figure 1
Middle: Figure 2
Bottom: Figure 3




**Process**
Thought does not spring into existence out of nothing; it is the result of a series of factors that come together over time. Of course, cognition is a highly interconnected, multi-causal process but we can simplify it to extract the issues relevant to KM (see "The knowledge process" on page 4).

**Type**
The field of KM struggles with the fact that knowledge is not a simple, stable quantity. Different schools of philosophy and sociology give different accounts. Currently, the importance of tacit and explicit knowledge is recognised by managers and is the subject of considerable work within KM.

**Level**
The idea that companies have three levels of social aggregation – individuals, groups and organisations – is a familiar one in management studies. Individuals are the fundamental building blocks, particularly in knowledge-intensive systems, but most individuals accomplish their work in groups, *using resources provided by the organisation.*

**Context**
The importance of an organisation's context – which influences its systems, structures and expectations – is increasingly cited in the KM literature. More fundamentally, nothing has any meaning outside a context – hence, whether a piece of information is meaningful or not depends on its context. KM efforts should begin by specifying their meaning-making context(s) and build from there.

## Reading the map

These four dimensions create a map that positions most of the KM practices that companies, consultants and academics are now applying. Each cell is partitioned to include both tacit and explicit knowledge, and the overall framework is embedded in a context which varies according to the analysis being carried out (see Figure 1).

The map appears to embrace most programmes and practices in KM today. As shown in Figure 2, the activities of Dow, Buckman and Hughes can readily be positioned on it. While there are overlaps, those in the thick of things (such as KM officers at Buckman and Dow) say that the map accurately represents their central concerns.

Dow, for example, is primarily concerned with capturing and organising the patent-related information that exists at the organisational level; Hughes is trying to make the expertise of its teams available across boundaries; Buckman is packaging its associates' product and customer expertise.

Whether implicitly or as a result of conscious deliberation, most companies are navigating some parts of the map and ignoring others. This is good, in so far as programmes need to be tailored to a company's specific needs but it is less desirable if companies assume that some part of the map (such as construction of an intranet) is the domain itself.

By plotting various KM activities on the map it becomes possible to define regions in which the different practices and processes cluster (see Figure 3). Since few companies or vendors restrict themselves to a single cell, these regions correspond to the way companies actually use KM.

The central point is that KM just *is* the range of activities depicted in the map. Managers should realise that KM comprises more than groupware or an intranet (group level/package-store and share-apply), more than business intelligence (organisation level/scan-map) and more than a "yellow pages" database of employee CVs (individual level/package-store).

A company that chooses to set up a yellow pages database via an intranet should know whereabouts it is on the map to understand what ground remains to be covered. Our research indicates that most companies implement such KM projects on a small, experimental scale and then expand into other areas. The map is a chart of the feasible options, a navigation tool.

It seems clear that KM has, for most of its existence, been rooted in the individual and his or her behaviour. With the formalisation of this field, attention is shifting towards the systems and structures that encourage knowledge-intensive behaviour in a company – the generation, transfer, application and reinvention of knowledge. Much of this movement has been occasioned by new information technologies.

Generally, successful KM programmes are process-based rather than static structures. The map should help managers at all levels to visualise the ground that their programmes are covering.





patents. A company cannot have an approved patent without new knowledge being generated and utilised. Many organisations overtly make this connection between knowledge and patents through advertisements, analyst briefings and other public relations efforts.

Similarly, new drug approvals and product introductions are the pharmaceutical equivalent of patents and should be considered part of companies' visible knowledge assets. These knowledge outcomes provide imperfect but tangible evidence of substantial knowledge inputs and effective knowledge creation and transfer.

Another viable category is product development and service innovation. Companies such as Sony, 3M and Baxter, which introduce hundreds of new products into the marketplace every year, see these products as direct outcomes of creative knowledge activities. While the knowledge embedded within these innovations is invisible, the products/services themselves are tangible. The frequency and speed at which these innovations come forth from an organisation can be viewed as a measure of its success in dealing with knowledge.

Other knowledge outcome measures that companies could use include cycle time, customer retention and measurable corporate reputation. For example, a company could measure the impact of improving access to expertise by examining the effect on cycle time in relevant business processes. Similarly, a company's ability to capture and apply useful knowledge from mass sales could be measured in terms of the rate at which future sales are won or the speed with which *new salespeople* become effective.

## Knowledge investments

Every day companies make substantial investments in improving their employees' knowledge and enabling them to use it more effectively. Analysis of these investments is a useful way of making KM activities visible. For example, how much technical and nontechnical training are individuals consuming? What is the rationale for purchasing groupware and collaboration technologies other than to improve knowledge flows? How much is invested in competitive and environmental scanning, and in other forms of strategic research? The most obvious knowledge investments are basic and applied R&D expenses, which in some cases reach more than 10 per cent of gross earnings.

Investments in knowledge, of course, may be misspent like any other type. But the level of investment indicates how seriously a company views knowledge, its ability to support knowledge-orientated activity, and its intention to produce knowledge-related business outcomes. Investment levels suggest, however roughly, the cost of knowledge in the organisation; *such measurement may* then inspire a company to assess how the money is being spent.

When we know what types of knowledge an organisation is spending money on, we get a sense of what knowledge it feels is important. When we see what kinds of training and education an organisation buys for its employees, we begin to understand what knowledge managers feel employees should acquire.

Assessing knowledge investments makes more apparent (both to organisational insiders and to any outsiders who can get the information) the priority given to knowledge acquisition, development, codification, transfer and use. If an organisation is not investing in knowledge, it is unlikely that it will be good at knowledge-related activities or that it will achieve the knowledge-related business outcomes it desires.

## Tools for knowledge management

Philip Manchester

**Knowledge management may be a product of the information age but there is far more to it than IT. Ideally, it involves employees sharing "tricks of the trade" with each other via networked databases. But in the real world this is not so simple. Pioneers of expert systems and knowledge-based technology *in the early 1980s found that people do not surrender their* knowledge easily – often because they are unaware that they have it in the first place.**

**At the annual Institute of Personnel Development conference in Harrogate last October, for example, Professor Karen Stephenson of the University of California noted that the key to KM was analysis of the "human networks" at work within an organisation: "As well as holding the key to understanding organisation, networks are the key to unlocking the knowledge in people's heads. An organisation's knowledge capital is invested in the invisible networks that connect people."**

**She went on to explain: "In all but the smallest organisations, no one can understand the millions of communications *and* decisions that get made through the networks because people only see those immediately connected with them. What I am saying is that organisations need to find their DNA."**

**The range of technology to support this quest for corporate DNA is wide, although at this early stage there are no clear market leaders. The three main threads of development – information retrieval, document management and workflow processing – have each spawned products that point in the direction of KM.**

**Information retrieval – from the internet, corporate networks and other data sources – is the most important of these technologies and can form the basis for comprehensive KM strategies. Microsoft's Index Server, for example, builds on traditional information retrieval techniques to provide a method for searching many different text sources, including Microsoft Word and Adobe Acrobat. It is bundled free with Microsoft's NT operating system and can be extended to other formats.**

**Verity's Search 97, Fulchrum's Knowledge Network and Excalibur's Retrievalware also build on traditional information retrieval concepts to provide the advanced search and analysis functions needed for KM applications.**

**Products such as Sovereign Hills' InQuery and Autonomy's Agentware use a more advanced approach. InQuery not only searches for specific word patterns, it can weight them according to their value in a particular search. After scanning a collection of documents, it produces a score to indicate the relevance of specific texts.**

**Autonomy's Agentware works in a similar way. It creates "concept agents" that can analyse new data and classify them according to the dynamic rules that they "learn". It also makes new connections with old information by continually modifying its network of relationships.**

**Agents – self-contained software programs that refine them*selves in the light of their "experience" – provide a powerful* mechanism for overcoming many of the current problems of information retrieval. Other approaches rely upon "keywords" and "filters". However, keyword scanning – which often produces more unwanted than useful "hits" – is a much more limited method for analysing unstructured data than pattern recognition by agents. Furthermore, keywords are language and syntax dependent. Autonomy's agents are not concerned with specific words – they deal with patterns and data strings in natural languages.**

**Similarly, filters are a crude method of refining data. They can take a lot of time to set up and can be difficult to tailor to idio*syncratic subject areas. Agents provide much richer results,* which can be further analysed by other agents.**

**Agents are dynamic; the more they are used, the more effective they become. They allow for change and the introduction of new concepts because they can "learn". Agentware can, for example, monitor an individual's interests by extracting "concepts" from documents read online and, in doing so, can build a profile of the user. Once it has picked out patterns it creates appropriate concept agents. As interests change, then so do the concept agents to reflect the change in the user's profile.**

**Another advantage of agents is that they can be shared among users on a network or corporate intranet. An employee working on a project to, say, look at *marketing possibilities* in eastern Europe can be put in touch automatically with employees who might have worked there or have special expertise stored in their user profile.**

**Information retrieval products such as those described so far form the foundation for KM applications. But they are only the beginning. Context-sensitive document management tools (that can, for example, work with the "content" held in a document image) and workflow processing software (to manage business processes) are also required. Increasingly, vendors in these sectors are incorporating information retrieval engines into their products. Lotus and Netscape, for example, use Verity's Search 97 package in their products.**

**At the same time a new breed of comprehensive KM package is beginning to emerge. Open Text's web-based package Livelink, which includes information retrieval, document management and workflow processing, is an example.**

# Making knowledge visible


## Summary

Cynics argue that knowledge management is impossible: knowledge is invisible stuff that resides in people's heads, whereas management deals with what is tangible and measurable. But this conclusion is too stark, says **Larry Prusak**; after all, we value many things without expecting to be able to measure their value. More importantly for KM, knowledge in companies *can* be made visible if we focus on knowledge activities, outcomes and investments. Analysing these three manifestations of corporate knowledge is a critical step for companies that want to create, share and apply it. Activities include networks of experts (which can be "mapped" by network analysis software to benefit the whole organisation), pronouncements by senior management, and incentive schemes that reward knowledge sharing. Outcomes include things such as patents, product launches and cycle-time reductions; however, knowledge managers need to make explicit the connection between these and knowledge activities. Finally, knowledge investments – in training, for example, or groupware – reveal the importance that companies attach to different sorts of knowledge.


Since the beginning of the recent "knowledge management" movement, a small but vocal chorus of detractors has argued that the idea is an oxymoron. Knowledge cannot be managed, they cry; it is found only within the minds of human beings, and is therefore entirely inaccessible to managerial approaches and techniques. At the same time, large numbers of large companies have proceeded to build large repositories of what they describe as "knowledge". How can this controversy be resolved?

Knowledge is undeniably a difficult thing to manage because it is invisible and intangible and thus unmeasurable. We do not know what knowledge exists within a person's brain, and whether he or she chooses to share knowledge is entirely a matter of volition. This presents problems for those undertaking knowledge management (KM) programmes within organisations, since by their nature such programmes imply a certain tangibility – that something of demonstrable benefit will get done that will improve the organisation's performance.

Identifying that something leads managers into a difficult set of choices. They can admit that knowledge is indeed invisible and go forward on faith alone. Or they can focus management programmes on helping people to acquire knowledge, to share it with others in conversation and direct interactions, and to use it effectively in decisions and actions.

These steps may not feel very tangible but then we deal with many intangible entities in our lives. After all, there are no reputable measures for the expected return on other "invisible" things by which we tend to live our lives, such as family, patriotism, piety and altruism. Within corporate environments, we spend a lot of money and energy on such intangibles as organisational learning, customer and employee satisfaction, and corporate culture.

Yet this approach to knowledge runs counter to the tendency of organisations to select projects that are based upon some form of quantifiable benefit. It is important for those involved in KM to find ways of making knowledge "visible" if they wish to justify the projects that they feel will benefit their organisations.

Let us consider three aspects of knowledge that are, or can be made, visible. They are activities involving knowledge, outcomes based on knowledge, and investments in knowledge. These visible manifestations of knowledge seem to be the most useful proxies for the role of knowledge in organisations; they enable comparisons of knowledge projects within and across companies, as well as providing a base set of numbers (of people, currency, time, and so forth) from which to derive metrics for evaluating knowledge efforts.

**Larry Prusak is executive director of IBM's Institute for Knowledge Management in Cambridge, Massachusetts.**

It is important to state that none of the following ideas are conclusive; we cannot say that so much of this activity will result in so much knowledge being generated or transferred. The business world does not yet know how to make such correlations. However, we only have been studying the role of knowledge in organisations since around the time of the second world war. As we grow more familiar with this asset, we will have a better sense of its benefits and perhaps less need to make it visible.

## Knowledge activities

It is possible to describe many everyday activities – from reading a newspaper to chatting with colleagues at the water cooler – as knowledge-orientated. However, such activities, valuable as they may be, cannot easily be used to develop concrete measures of the prevalence of knowledge in organisational processes. Let us instead examine some knowledge activities that can be made visible.

One important knowledge activity is the identification and development of informal networks and communities of practice within organisations. These self-organising groups number around 50 to 300 people in large companies and share common work interests and passions, usually cutting across a company's functions and processes. Knowledge tends to "clump" in these groups – people exchange what they know freely and develop a shared language that allows knowledge to flow more efficiently.

At Ford, for example, a virtual community of several hundred employees focuses on the development and adoption of new braking technologies. Within IBM, there are at least eight distinct communities concerned with differing aspects of KM itself.

We know that communities exist when we observe direct or electronic conversations between members. We can measure the number of members, the level of participation in knowledge sharing, and even the number of bits of information that flow across the network.

These networks can be made even more visible through various IT tools. There are several network analysis tools that collect responses to specific questions and highlight knowledge flows and connections. These tools can describe who talks to whom about a particular type of problem, and can also be a guide when searching for expertise. In other words, they tell a user who to contact in order to get an answer to a particular question.

With a large set of responses, one can then "map" a knowledge network and make it visible to others in the organisation. Knowledge maps are valuable guides that can assist employees of large or medium-sized companies to ascertain who knows what. Corporate "yellow pages", skills inventories and expert databases are versions of maps, albeit difficult to maintain and update. As organisations grow larger, more complex and more dispersed, the problems associated with locating and benefiting from expertise – and hence the value of maps – grow accordingly.

Knowledge maps can be useful even when very simple. At American Express, a mid-level systems analyst decided to draw up a map showing the locations of the company's data centres and what was in them. The project was done independently and with little corporate support. Not surprisingly, though, this low-cost aid was a huge success in the company.

Another type of knowledge activity that is often neglected by management is the development of symbols and signals that highlight the importance of knowledge. These activities legitimise the work of knowledge practitioners by making visible the company's commitment to knowledge-based work.

In the last annual reports of the World Bank and IBM, for example, both organisations publicly highlighted the value of their knowledge activities. BP Amoco's chief executive, Sir John Browne, publicly advocates the value of knowledge as a crucial lever for company performance. His speeches and articles in business publications serve as a signal of the importance and value of knowledge at the company.

Other common knowledge symbols and signals include allowing employees to attend conferences, evaluating employees in part on their knowledge-sharing behaviour, and giving employees unstructured time in which to reflect on their work and what they have learned from a recent project or task. Financial and nonfinancial incentives for knowledge creation and sharing, as offered by many consulting firms, also lend visible support to knowledge activities.

## Knowledge outcomes

There are several categories of knowledge-related business outcomes that organisations use as measurable indicators of knowledge. Again, it is possible to treat this category as a catch-all and assume that almost all organisational activities translate into knowledge outcomes. One should be careful to ensure that whatever outcomes are used can, at least anecdotally, be tied to genuine knowledge-based activities. Without this connection, such efforts will simply generate cynicism. For example, improvements in the speed of a knowledge work process (new product development, for example) should be linked to evidence of increased sharing of knowledge across the relevant community.

Consider a company's accumulation and use of



# The role of the chief knowledge officer


## Summary

The growing popularity of knowledge management is reflected in the fact that more and more companies are employing chief knowledge officers (CKOs). Unlike the chief information officer, whose task is to oversee the deployment of IT, the CKO's job is to maximise the creation, discovery and dissemination of knowledge in the organisation. Recent research by **Michael Earl** and **Ian Scott** indicates that the broadness of this remit is echoed in the personality of the typical CKO: he or she tends to be lively, infectiously enthusiastic, flexible, willing to work with anyone anywhere, and interested not only in the latest IT but in "soft" organisational mechanisms for promoting knowledge. The best CKOs fulfil four roles: entrepreneur (willing to champion risky new initiatives); consultant (able to match new ideas with business needs); technologist (fully IT-literate); and environmentalist (able to design settings and processes to maximise knowledge). While most hope that once knowledge management becomes ingrained in the company their role will be finished, the transitional period is taking longer than expected.


In several large organisations, and some small ones, a new corporate executive is emerging — the chief knowledge officer, or CKO. This is quite a different role, so far, from the chief information officer, or CIO, who oversees the IT function. CKOs are being appointed to initiate, drive and co-ordinate knowledge management programmes. In 1997—98 we studied 20 CKOs in North America and Europe both to understand their roles and to gain insight into evolving knowledge management practice.

## The rise of knowledge management

But what is knowledge management and why are corporations investing in it? Most of our CKOs would agree on three points:

**1**
Today knowledge is a sustainable source of competitive advantage, and one that it is essential for companies to tap. In an era of rapid change and uncertainty, companies need to create new knowledge, nurture it and disseminate it throughout the organisation, and embody it in technologies, products and services. Indeed, several sectors – for example, the financial services, consulting and software industries – depend on knowledge as their principal means of value creation.

**2**
Most companies are not good at managing knowledge. They may undervalue the creation and capture of knowledge, they may lose or give away what they possess, they may inhibit or deter the sharing of knowledge, and they may underinvest in both using and reusing the knowledge they have. Above all, they may not know what knowledge they have.

**3**
Knowledge management programmes may be a means of galvanising companies to develop knowledge as a source of value creation, redirecting their attention away from capital, natural resources and labour as the only economic resources that matter.

Knowledge management programmes, therefore, are explicit attempts at:

- Designing and installing techniques and processes to create, protect and use explicit knowledge (that is, knowledge that the company knows it has)
- Designing and creating environments and activities to discover and release tacit knowledge (that is, knowledge that the company does not know it has)
- Articulating the purpose and nature of managing knowledge as a resource, and embodying it in other initiatives and programmes

Knowledge management programmes are being developed in a variety of industries, from financial services and consultancy, through IT- and science-based companies, to fast-moving-consumer-goods manufacturers and food and drink companies.

## The rise of the CKO

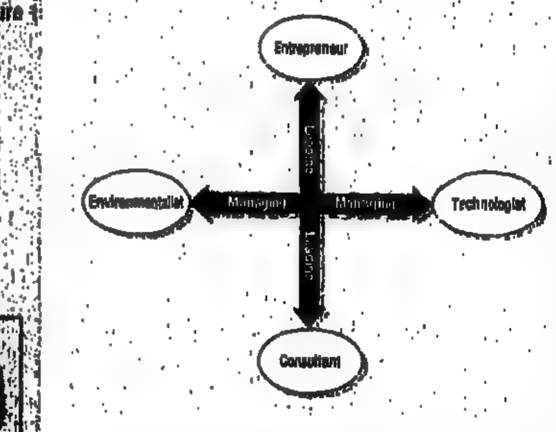
The people who drive and co-ordinate knowledge management programmes are not necessarily called CKOs ("the most pretentious title in the company", as one of the CKOs we interviewed put it); they may enjoy kindred titles, such as "director of intellectual capital", "vice-president, intellectual assets" or "director, organisational learning". But for the purposes of our study, our subjects had to be corporate executives with "knowledge" in their title. On this definition, we reckoned there were about 25 CKOs in the world. By the end of 1998 this number may have doubled. Those we studied came from the financial services, IT, consultancy, utility, petrochemical, media services and FMCG sectors.

None of the people we looked at had been in the job for more than two or three years. They had small staffs and small budgets and did not expect their role to be permanent. In some ways, they were like the executives who led "total quality management" (TQM) initiatives, appointed to achieve change but with few direct resources.

**Michael Earl is professor of information management at London Business School.**

**Ian Scott is a visiting research fellow at the Centre for Research in Information Management, London Business School.**

Figure 1




However, most had considerable influence and status – initially at least – because they had been appointed by the chief executive, to whom they reported. They were normally appointed from within the organisation and so were familiar with its culture and character. But no obvious route to becoming a CKO was apparent. Our CKOs came from a variety of backgrounds, often with a mixed career profile. For example, one had experience of consultancy, IT and organisational learning. Typically, our CKOs were in their forties, with a track record of achievement, particularly in change, behind them, and apparently an excellent career ahead of them. Forty per cent of those we studied were women.

## A question of character

In most of the cases we looked at, the chief executive appeared to have made an intuitive decision to appoint a CKO. These decisions were bold but not worked out in detail, with the result that most CKOs had to work out their own job specification. However, given what the CKOs were seeking to do and the way they were going about it, the chief executives seem to have had an eye for appointing the right people.

What struck us early on in our research was the CKOs' distinctive personalities. They were lively, enthusiastic and able to transmit their enthusiasm to others. They were curious and reflective, seeking to learn as they evolved in their role. They had great belief in knowledge management and were ambitious for the success of their company. They were flexible, looking to work with anyone on anything that could advance the cause of knowledge management. They were content to sponsor projects or to let others take the lead and the praise.

A striking quality was the breadth of their interest. They were not obsessed solely with the ideas and products of the IT industry for knowledge management, but they did not dismiss them. Indeed, they saw themselves as designers of social environments and events, new business processes and organisational development initiatives. This is why we suspect that a rich and wide previous career helps. However, to judge what will work in a company and at what pace, deep experience of that organisation is also likely to help.

So striking were these personalities – and the high proportion of female incumbents – that we applied a psychometric test to those CKOs who would respond. The resulting profiles tend to reinforce our descriptions. However, we were particularly keen to derive a picture of the CKO in terms of role.

## The model CKO

From the interviews and subsequent workshops with our CKOs, we derived a model which seems to us to capture the four critical capabilities of the CKO (Figure 1). There are two "leading" and two "managing" qualities.

**"Leading" qualities**

The CKO needs to be an *entrepreneur*, a self-starter who is excited by business development and by creating something. All our CKOs saw themselves as builders, starting a new activity or function. They recognised the personal risks involved in taking on a newly created position, especially one with a title that invites ridicule (although most valued having the word "knowledge" in their titles). However, all seemed stimulated by the risks.

A critical attribute of such entrepreneurship is being a strategist who can understand the implications of using knowledge management to transform the organisation. To a degree, the CKO is a visionary, able to see the big picture that the chief executive has in mind but also able to translate it into action. He or she can think of new ways of doing things and yet focus on deliverable results. In short, the CKOs we have met are driven by building something and seeing it through.

However, vision and determination are not enough. The CKO is also a *consultant*. He or she has to listen to other people's ideas and bring them in and nurture them if they make sense and fit the knowledge vision. Without practical ideas and projects, knowledge management is likely to be little more than rhetoric. So, as in classical management

Continued on page 8

Continued from page 7

consulting, a valuable skill is matching new ideas with managers' own business needs.

Managing relationships is therefore an important capability. The CKO can operate only through influence, persuasion and demonstration. At the same time he or she must be willing to let others take centre stage and receive the credit.

It is also important to be able to read the company's appetite for change and appreciate how to connect to, and work along with, other change initiatives. One CKO said that she was "driven to make a difference to performance" but added that such goals are to no avail unless the CKO "understands the organisation's business model and is clear on the kinds of knowledge that are relevant and will create value". This reads like the central competence of a good strategy consultant.

**"Managing" qualities**

CKOs also need two principal design competences as they encourage, initiate and manage investments in IT and the social environment. First, as a *technologist* the CKO has to understand which *technologies* can contribute to capturing, storing, exploring and, in particular, sharing knowledge. Some of these technologies are just emerging. The CKO has to be sufficiently informed to evaluate what technologies work, what opportunities they open, whether and when to adopt them, and how easy implementation is likely to be.

On some occasions the CKO is the sponsor of the IT project and nearly always has to work with the CIO or a senior IS executive. Thus the CKO needs to be able to have credible discussions with these colleagues. Among the CKOs we studied this was more likely to come from past involvement with IT projects than from formal IT training.

Such technical understanding is not optional: the CKOs we studied recognised that they could not operate in the domain of knowledge management alone. Indeed, their first initiatives were often based on IT, such as creating knowledge directories, developing knowledge-sharing groupware or building an intranet. And re-engineering knowledge-intensive management and business processes, such as new product development or sales planning, often requires development of a knowledge-sharing IT application (such as groupware to record experiences and ideas).

The second design competence is "softer" in character and relates more to the management of tacit knowledge. Here our CKOs stressed their role in creating social environments that stimulate both arranged and chance conversations, or in developing events and processes that encourage more deliberate knowledge creation and exchange. The CKO is therefore also an *environmentalist*, which implies several things. It includes the design of space, such as offices and relaxation areas, and sometimes even the acquisition and furnishing of retreats and learning centres. It also involves bringing together communities with common interests that rarely interact with each other. For example, people in different functions who serve or have information on important customers may be brought together to exchange knowledge (especially experience and gossip).

Being an environmentalist also means redesigning performance measurement and executive appraisal systems to break down incentives centred on the individual. It means encouraging people to develop knowledge collectively, to share knowledge with one another, to be prepared to take risks and to learn through experimentation. More basically, being an environmentalist means advocating management education and organisational development initiatives that increase the company's capacity to create knowledge. Examples include experience-sharing events for fast-track managers and career development programmes that allow participants to acquire broad and deep knowledge.

**CEO, CIO and CKO**

The model CKO needs multiple competences. More particularly, the model in Figure 1 suggests how the CKO's responsibilities differ from those of other executives. The "leading" entrepreneur/consultant axis combines the strategic, integrating, enterprise-wide qualities of the chief executive with the catalysing, selling and implementing qualities expected of the change agent. The "managing" environmentalist/technologist axis covers the softer, organisational, process-orientated perspective of the human resources specialist as well as the technological, information systems perspective of the CIO. In these respects, the CKO is perhaps deeper than the chief executive often is expected to be and broader than the CIO wants or has the time to be.

When we add our personality data to this descriptive analysis of what CKOs actually do, we conclude that they are a different breed from the typical CIO. CKOs are more extrovert, more tolerant and probably more relaxed than CIOs, and have a broader range of skills and interests. This is not a value comparison of the two roles. The CIO's role is very demanding, as described earlier in this series ("Change isn't optional for today's CIO", Part 3), and in particular demands more functional leadership, technological knowhow and obsession with daily operational performance. The qualities required of the CKO are an unusual and perhaps rare mix, in which coping with ambiguity and helping others to change are key attributes.

## A transitional role?

The CKOs we studied saw their role as temporary, coming to an end when knowledge management was accepted by their company and embedded in its daily life. Again, this recalls the TQM movement, which was needed to focus companies' attention on quality as a competitive necessity. Success was achieved when "quality" was no longer a special issue, at which point some of the TQM change processes could be taken away.

Likewise, our CKOs saw their goal as working themselves out of a job. However, they were generally finding that the changes required in organisational and managerial behaviour to manage knowledge as a normal, daily activity – and the environmental and technological investments required – were going to take longer than they or their chief executives expected. So we do not believe that CKOs will be "here today and gone tomorrow" – they may be required until at least the day after.

## Further reading


Davenport, T.H. and Prusak, L. (1998) *Working Knowledge: How Organizations Manage What They Know*, Harvard Business School Press.

Earl, M.J. and Scott, I.A. (1998) *What on Earth is a CKO?* Research Report, London Business School and IBM, August.

Earl, M.J. and Scott, I.A. (1999) "What is a Chief Knowledge Officer?" Sloan Management Review (winter). (Discusses the results of psychometric tests carried out on CKOs.)


# Readers' letters

## The price of success

Dear Sir,

When reading, I always like to bear Baudrillard's classification of the relationship between representation and reality in mind. The first stage is where representation reflects reality. The book or article is about what it purports to be about. The second stage is where representation masks and perverts reality. Here, the writer has for one reason or another chosen to "lie". *At the third stage, because of lack of* contact with reality, representation masks the absence of reality. In the fourth and last stage, representation bears no relation to any reality.

Most of the work I read on supply (or demand!) chain management falls firmly in the third and fourth stages. Like Iago's description of Cassio, the writers are "Arithmeticians. . . who had never set squadron in the field". Your recent MIM on "The smarter supply chain" is an exception, but still fails to recognise the reality of supply chain management.

There are clearly major challenges which none of your writers addresses properly. As is common in writers on SCM, they fall in love with the idea of demand as the key factor in managing co-ordination. But managing co-ordination in supply chains is a much broader and more complex process. Oversimplification is likely to lead to increasing management costs and unlikely to lead to effective co-ordination.

As is common among IT professionals, they seem to think that IT is merely about stitching together common administrative processes or groupware and group technology. IT can be used much more imaginatively to manage supply chains.

Companies who do SCM are now beginning to recognise the challenges. The first is the cost of obtaining the information we need to work together. The second is the cost of using that information to change the nature of the business networks in which we work. The third is the cost of ensuring ownership of the processes that support collaborative working in its broadest sense. Many so-called "best-in-class" companies are only now finding that the costs of "success" in managing supply are even greater than the costs of failure.

Yours faithfully,

Peter Stannack
Director, Sourcing Performance
(Mr Stannack wins this week's bottle of pink champagne)

## False distinction

Dear Sir,

I write with regard to the feature "How to keep up with the hypercompetition" (MIM 4, February 22, pp.12–13), which provides a thorough overview of demand and supply chain management. A weakness that I feel must be addressed, however, is in the assumptions behind the notions of "moderate competition" and "hypercompetition".

To reword the thrust of the article: "If your market is stable, worry about your supplies and costs while keeping an eye on the supply chain; but if, on the other hand, your market is 'dynamic', monitor and please the customer, making money where you can."

With the article's thesis restated in these terms, I ask whether all companies should not do these things. The dichotomy is unrealistic in the global age we live in. The difference between "moderate competition" and "hypercompetition" is your ability to control your market to bar access to newcomers. This is unreliable and unpredictable in the modern environment, as your Internet feature made clear.

Furthermore, the discussions of networked/virtual/extended organisations that have been current for a number of years, should inform us that market power and position can be attacked through re-combination of organisations in the market. Companies that just invest but do not innovate can be undermined by technological change.

In conclusion, I feel that the author covered the topic thoroughly but used an inappropriate dichotomy of concepts that could lead to complacency. Why should an organisation not pursue all available strategies? Do not most organisations sit uncomfortably between these two concepts?

Yours faithfully,

Duncan Watson
Department of Information Systems
London School of Economics

## Open goal

Dear Sir,

I read with interest the article by Donald Marchand in part 4 of your Mastering Information Management series ("How to keep up with the hypercompetition").

Broadly, I found myself in agreement with the concepts expressed but I felt that there was one (fairly important) error, one set of misconceptions and a rather relevant omission.

The error was in categorising SAP's ERP products as mainframe or (at best) AS400. In fact, as for Baan, Peoplesoft and Oracle, SAP's R/3 software is expressly client/server architecture. The original SAP product (R/2) was indeed mainframe and still retains a significant market (especially within those markets categorised by Professor Marchand as traditional, moderate competition markets).

The misconceptions relate to the rather glibly expressed view that Baan, Peoplesoft and others provide "open" (award here for the most overused and least understood adjective in IT) systems in a way that SAP does not. In fact, the key point with ERP systems today is that the customer-driven *need for integrating applications from different* vendors has forced the major ERP providers (and SAP is the prime example) to desegregate (distribute) their integrated software to allow and, indeed, to facilitate integration with other, non-SAP, applications.

Herein lies the omission. It is difficult to talk about ERP systems today without acknowledging that they are busily re-engineering themselves. Today's ERP providers no longer expect the customer to implement their products, all of their products and nothing but their products – rather, todays customers (and companies such as Unilever and Procter & Gamble are prime examples) insist that today's ERP providers supply ever more compatible and "open" products.

Nevertheless, Professor Marchand was essentially correct in his understanding of the distinction between moderate and hypercompetitive companies; the trend, though, is undoubtedly towards the hypercompetitive.

Yours faithfully,

Paul A. Moore
SAP Consultant, HPCE SAP
Architecture Team



* All issues subject to change

FINANCIAL TIMES
# COMPANIES & MARKETS
MONDAY MARCH 8 1999 · Week 10





## INSIDE

### Deutsche looks abroad for profits

Deutsche Bank's decision to build a branch and telephone banking network in France illustrates the frustration German banks face at home. With only 10 per cent of of the German market for credit and deposits, Deutsche and the other two big commercial banks, Dresdner Bank and Commerzbank, have long been eager to maximise profits from other activities. **Page 19**

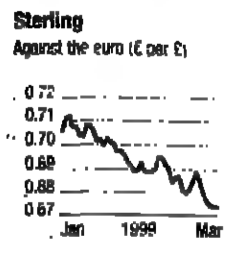
### Trafficmaster en route to Europe

Trafficmaster, the group that pioneered traffic jam avoidance systems in the UK, will today announce a deal with German telecommunications group Mannesmann that could make its traffic system the standard for Europe. **Page 18**

### Election boosts Nigerian stock hopes

Brokers in Lagos hope the election last week of a civilian president will boost equity investment, inspire confidence among overseas investors and help to reverse a slide that has seen almost everyone take losses since early 1997. **Emerging Market Focus, Page 21**

### UK Budget could include tax cuts



Source: Datastream/ICV

The UK Budget, to be presented on Tuesday towards the end of the London trading session, could give important clues to the direction of UK interest rates. The spending side of the Budget is not in question, as the Government has committed itself to nominal expenditure control totals. But the market has speculated that there may be tax cuts, given the healthy state of public finances. **Currencies, Page 24**

### European stocks set for strong start

European stocks look set to start the week on a positive note following Friday's rally in the US and European asset markets. The unexpectedly small rise in US average hourly earnings in February allayed fears of monetary tightening by the Federal Reserve. **Euro-zone, Page 25**

### Analysts' UK growth estimates fall

Analysts expect UK corporate earnings to grow by about 10.5 per cent in the next 12 months. Figures show that three months ago, expected UK growth for the coming 12 months was 15 per cent. **Market Week, Page 23**

### Speculation over TFB's next move

Japan's Trust Fund Bureau in December announced it would stop its monthly Y200bn ($1.62bn) purchases of Japanese government bonds. Last month said it would buy Y400bn of bonds in February and March. But will it stop JGB purchases after March, and sell some of its Y84,000bn holdings of JGBs. **Page 20**

### Wall Street enjoys buoyant outlook

An active week is likely on the New York securities markets after Friday's employment report showed that wages were growing more slowly than expected. The Dow Jones Industrial Average rallied to an all-time high on Friday, closing at 9,736.08. **Market Week, Page 23**

## FT GUIDE TO THE WEEK

– full listings Page 34

**WTO MEETS FOR BANANA DISPUTE**
The Geneva-based World Trade Organisation meets today to discuss the US trade measures imposed against European goods in the banana dispute. The European Union is arguing that the US action is illegal under WTO rules.

**INTEL ANTITRUST TRIAL BEGINS**
Intel, the US information technology group, is to appear in court in Tuesday. The US government has accused the group of abusing its market position and denying competitors access to information about planned products.

**JAPAN FINAL QUARTER GDP ANNOUNCED**
On Friday, Japan's Economic Planning Agency will announce gross domestic product data for the October-December quarter of 1998. Japan's GDP has shrunk for four consecutive quarters.

## COMPANIES IN THIS ISSUE



## MARKET STATISTICS



# Olivetti pressed for 'rich' terms in bid

## Banks will seek high rates to finance Telecom Italia deal

By Vincent Boland and Jane Martinson in London and James Blitz in Rome

Olivetti, the Italian telecommunications group, will have to pay unusually high borrowing rates to banks as it begins raising a loan of €22.5bn ($25bn) this week to help finance its €53bn hostile bid for Telecom Italia.

The banks have set terms of 225 basis points over Libor for the three-year loan even though Tecnost, the Olivetti unit raising the cash, has received a BBB+ credit rating from Standard & Poor's.

Bankers said companies with a similar rating would normally be able to borrow money at 75 basis points over Libor. But the size of the Olivetti transaction meant the company had to set "rich" terms to ensure a syndicate of up to 75 banks would be put in place to underwrite the deal.

"There is a lot of scepticism out there about whether Olivetti can make it, and it had to take that into account in the terms [of the proposed loan]," said one banker.

Meanwhile, Standard Life Investments, the fund management arm of Europe's largest mutual insurer, has garnered the support of investors holding more than 10 per cent of Telecom Italia in its attempt to oppose Olivetti's bid.

Standard Life is also confident it will win sufficient support to force Franco Bernabe, the Telecom Italia chief executive, to bring about strategic changes to increase shareholder value. Leon de Jerez, head of European equities at Standard Life, said: "We don't want him to feel that it's business as usual. He has to consider how he can give us better value than Olivetti."

Mr de Jerez said the company had the support of some 28 institutions holding between 10 and 12 per cent of Telecom Italia's voting shares. Standard Life holds 0.4 per cent of Telecom Italia's voting shares and 0.6 per cent of its savings shares.

It is hoping to win 30 per cent shareholder support – a threshold that would allow Telecom Italia to alter its capital structure at an extraordinary general meeting expected to be called next week.

Roberto Colaninno, Olivetti chief executive, rebuffed speculation in Italy of a truce between the two sides. He told Italy's RAI 3 television channel that his operation was "planned, announced and will not be modified If it is concluded, it will be on the terms in which it was planned".

Mr Bernabe told the same programme that Telecom Italia needed to develop new products, such as its internet services. "To do this, you need to have resources, you need to make investments and you therefore cannot have company that is heavily indebted."

The Olivetti loan will be an early test of the depth of Europe's capital markets under the euro, although banks and other financial institutions around the world are expected to be invited to participate.

Lex, Page 16

# EMI goes to food group for its new chairman

By Alice Rawsthorn and John Willman

EMI, the embattled music group, has appointed Eric Nicoli, chief executive of United Biscuits, the UK food group, as chairman to replace Sir Colin Southgate, who is to retire a year early.

Mr Nicoli, 48, will be succeeded at UB by Leslie Van de Walle, French-born chief executive of its McVitie's biscuits division, who joined the company in 1994 from Cadbury Schweppes.

The appointment of Mr Nicoli, who has been a non-executive director of EMI since 1993, comes at a sensitive time for the group, which owns the world's largest music publishing business as well as the record labels representing The Beatles, Spice Girls, Garth Brooks and Robbie Williams.

Long haunted by bid speculation, EMI's performance has been affected by the slowdown in global music sales and a strong pound. It reported a 20 per cent fall in operating profits to £91.2m ($146m) from £113.8m for the six months to September 30. Turnover was down to £994m ($1.03bn).

Sir Colin, 60, announced plans to appoint a successor when unveiling an interim profits warning in September.

Originally EMI was expected to hire a group chief executive, with Sir Colin remaining as non-executive chairman until his contract expired in July 2000. However, he has agreed to retire this July.

Sir Dominic Cadbury, another EMI non-executive, will become joint deputy chairman alongside Simon Duffy, finance director. Sir Colin will receive compensation of about £800,000.

Mr Nicoli became UB chief executive in 1991. In 1995, a £131.8m pre-tax profit turned into a £100.6m loss, and UB became the first UK food group to cut its dividend in 17 years.

UB also announced yesterday that Colin Short, chairman, will retire after the annual meeting on May 20. Sir Gordon Hourston, former chairman of Boots the chemists and a non-executive UB director, will succeed him.

Lex, Page 16
Move to the Internet, Page 18

Celebrating today's debut of South African Breweries on the London Stock Exchange with bottles of the company's Castle lager are, left to right: Nigel Cox, finance director, Meyer Kahn, chairman, and Graham Mackay, chief executive. SAB should qualify for membership of the FTSE 100 index when the equity indices committee meets on Wednesday. Picture: Ashley Ashwood

UK TELECOMS GROUP MAY RIVAL NTT WITH BID

# C&W considers offer for IDC

By Paul Abrahams and Michiyo Nakamoto in Tokyo

Cable and Wireless, the UK-based telecoms group, is considering making an offer to take control of International Digital Communications (IDC), the Japanese international telecoms operator.

But the move could run foul of NTT, the country's telecoms giant, which is also keen to acquire a significant stake in IDC.

The potential contest between C&W and NTT underlines the rapid rationalisation of the Japanese telecoms industry as the market deregulates. It also highlights the growing interest of foreign investors in taking control of Japanese companies.

The British group, which already owns 17.6 per cent of IDC, has approached the group's main shareholders Itochu, the trading company, and Toyota, the automotive group.

Together, the holdings would give the British group a controlling 52.8 per cent stake. C&W would also like to acquire the stakes of the remaining shareholders.

These include AirTouch of the US, which owns 10 per cent of IDC and is in the process of being taken over by Vodafone, the UK mobile phone operator.

C&W's offer is understood to value the equity of the company, which has about Y28bn in net debt, at about Y60bn ($500m).

The reason for the apparent low valuation is that IDC's sales in the fiscal year ending this month are expected to fall from Y80.9bn to Y77bn, while profits before tax are predicted to drop from Y6.4bn to Y2.4bn.

International telephony in Japan is suffering from the rapid encroachment of call-back services and plunging prices.

Junichiro Miyazu, NTT's president, said last month his company intended to forge an alliance with IDC that would include taking a capital stake in the company.

NTT cannot begin international operations until July when new deregulation measures are implemented.

C&W will probably make its offer in the next two to three weeks. C&W and NTT are understood to have completed due diligence of IDC.

"We are observing the situation," said NTT. "At this point, three months before we even start international operations, we cannot determine whether the price we might have to pay is high or low. If the price is too high, we may decide to give up."

The history of C&W's stake is controversial. It is a founding shareholder, but was only able to acquire its stake in 1987 after the direct intervention of Margaret Thatcher, then UK prime minister.

Some analysts believe that C&W's possible move may be aimed merely at driving up the price NTT eventually has to pay for IDC.

Lex, Page 16
C&W shakes up Japan, Page 21

# Hyundai Motor chief quits

By John Burton in Seoul

Chung Se-yung, who developed Hyundai Motor into South Korea's largest carmaker, has surrendered control of the company to his brother, the founder of the Hyundai group, in a family feud.

Mr Chung said he would swap his 8.3 per cent stake in Hyundai Motor for ownership of Hyundai Industrial Development, a builder, after he was ousted last week as the honorary chairman of the carmaker he led for 32 years.

His son also resigned as Hyundai Motor's vice-chairman to manage Hyundai Industrial, which will be separated from the Hyundai group, Korea's largest conglomerate, or *chaebol*.

The dispute over Hyundai Motor, the group's flagship company, comes as Chung Ju-yung, the frail 83-year-old Hyundai founder, is dividing the industrial empire among his six sons. The removal of Chung Se-yung is seen as a move to bolster the position of Chung Mong-ku, who traditionally takes over leadership of the group as the eldest son of the Hyundai founder.

Although he has been Hyundai chairman for three years, Mong-ku had been relegated to managing marginal Hyundai businesses such as its small steel operations. In an effort to increase his powers, Mong-ku sought management control of Hyundai Motor, which had been placed in the hands of Chung Mong-gyu, Se-yung's Oxford-educated son, under a 1996 corporate reorganisation.

Mong-ku helped engineer Hyundai Motor's takeover of Kia, the insolvent Korean carmaker, last year and then ousted his cousin as Hyundai Motor chairman in December.

Se-yung sought to retain control of Hyundai Motor by trying to appoint allies to the company's board last month, but the challenge to the authority of the Hyundai founder forced his resignation.

PAUL ABRAHAMS
**GLOBAL INVESTOR**

# Tokyo's season of folly

You can always tell when spring is approaching in Tokyo. The change of the seasons can be foretold from the silly schemes floated to boost the stock market before the financial year ends on March 31.

A year ago, Taku Yamazaki, then head of policy making for the ruling Liberal Democratic party, proposed that postal savings funds could be used to buy in the equity market to boost the Nikkei 225 index above the previous financial year's close of 18,003.

The scheme, never put into effect, ran counter to the government's avowed intent to make the Japanese capital markets "free, fair and global". The result? The Nikkei jumped 430 points to 17,264 on the day Mr Yamazaki chose to fly his kite, but ended on March 31 at 16,527.

This year, since the Nikkei remains in the doldrums – it closed on Friday at 14,894 – more proposals are being floated. The most publicised is one put forward by the largest business group, the *Keidanren*. One element is that again public money should be used to boost the market, this time to help companies unwind their cross-shareholdings in other groups.

Estimates vary, but anywhere from 40-60 per cent of the first section of the Tokyo Stock Exchange – between Y113,000bn and Y170,000bn ($132bn and $145bn) – is held by other listed companies.

These cross-shareholdings have traditionally been used in Japan to reinforce business relationships. Banks would exchange shares with their customers, corporates would buy stakes in their suppliers. At its most sophisticated, the cross-shareholding system was used to cement the *keiretsu*, the groupings that have dominated Japanese business for most of the century.

The problem is that the holdings, once so beneficial, have become liabilities. When the stock market was rising, so did the value of their holdings. Not only did the relationships have no cost, they were generating value. Now, with the market trading more than 60 per cent below its peak and trending lower, companies are booking losses on the value of their stock holdings.

That would be bad enough, but the collapse in operating profits this year is also forcing many groups to sell a portion of stakes still above book value. This selling, aimed at raising cash and net profits, has the effect of pushing the market down.

The best way of dealing with this problem would be for organisations to swap their respective shares and cancel them. But the tax bureau of the finance ministry is opposed, on the principle that the companies would avoid paying capital gains tax on the shares.

Instead, the *Keidanren* has suggested that the government set up a state-owned fund to buy the shares. These would then be held until the market rose. The Liberal Democratic party knocked this on the head last week. The sums involved would be colossal and the taxpayer would assume the risk.

The *Keidanren*'s last suggestion – in some ways the most elegant – was that the shares should be given to the companies' underfunded pension schemes. But Japanese executives want to have their cake and eat it. Their proposal includes the idea that when the shares are transferred to the schemes, the voting rights would stay with the companies. They did not want their own shares to be held by potentially hostile owners. It might be dangerous to hold shares of other companies, but it would be more dangerous – for management, at least – to allow one's own shares to fall into the hands of non-core investors.

This comes to the crux of the matter. The system of cross-shareholdings in Japan provides a mechanism for management to avoid shareholder pressure. In effect, it has allowed Japanese executives to feather their own positions, and those of their employees, at the expense of shareholders. But despite the recent acceleration in unwinding, the process remains so glacial that it will be the next century before outside shareholders can really exert pressure. If the government does enact a scheme to accelerate unwinding, it should make sure management is exposed to outside pressure. Now that *would* drive up the market.

**TRANSPORT** MANNESMANN DEAL PAVES WAY FOR EXPANSION

# Trafficmaster hits the highway to Europe

**By David Blackwell**

Trafficmaster will today announce a deal with German telecommunications group Mannesmann that could make its traffic information system the standard for Europe.

"The motor industry has been waiting for a clear message that traffic information services will be available right across Europe," claimed David Martell, Trafficmaster's chief executive.

Trafficmaster and Mannesmann would now be positioning themselves to offer a single European service.

The deal, to be announced with Trafficmaster's results today, will give Mannesmann a stake in the UK group's German subsidiary company. Mannesmann is already licensee to Trafficmaster's technology, and has installed sensors along 6,000 miles of autobahn.

Trafficmaster will also get an option to buy into Mannesmann's telematics service through which the emergency services are automatically alerted about the position of an accident.

Trafficmaster has pioneered traffic jam avoidance systems in the UK. It gathers traffic flow information from roadside scanners on motorways, alerting motorists through a dashboard device. They use mobile telephones to obtain more details and Trafficmaster receives a cut of the calls.

The group operates under government licence and its customers include Cellnet, the RAC, Norwich Union and Vauxhall, and last month it signed a five-year contract to supply the Automobile Association with a live feed of traffic information. After news of that deal the shares jumped 89p to 641½p, and they have risen since to close at 827½p on Friday.

Mannesmann was the obvious partner with which to expand: strong in Germany, where car sales are double the level in the UK, and with mobile telephone interests in Italy and France, the next biggest European markets. While Trafficmaster had the technology and intellectual property rights, Mannesmann had the financial muscle, the political clout and the mobile telephone network.

Trafficmaster is forecast to announce 1998 profits of more than £3m today, compared with a previous £240,000.

The group is also expected to announce that the launch of its device to slow stolen cars is on course for next month. When activated, the device will restrict fuel flow to the engine and transmit a tracking signal.

# A chance of taking the biscuit by moving on to the net

Eric Nicoli, EMI's new chairman, faces the challenge of revitalising a once-plum group; **Alice Rawsthorn** investigates

When Sir Colin Southgate, EMI's chairman, finally agreed to appoint a successor to run the troubled music group, his staff assumed their new boss would be an entertainment executive. Alain Lévy, PolyGram's former chairman, and Michael Fuchs, an ex-Time Warner executive, were names in the frame.

Instead, their new chairman is to be Eric Nicoli. He is well known in UK corporate circles as chief executive of United Biscuits. But his experience of the music business is limited to five years as an EMI non-executive director. As one EMI executive asked yesterday: "Is this Sir Colin Mark II?"

Mr Nicoli's appointment has been interpreted, both by staff and investors, as a sign that EMI's executive directors – Ken Berry and Martin Bandier, heads of recorded music and music publishing respectively – will continue to have free rein to run their divisions.

Both men expressed concern at the prospect of reporting to an opinionated entertainment specialist, such as Mr Lévy, and preferred a scenario whereby, like Sir Colin, the new chairman would concentrate on strategic issues and EMI's relationship with investors.

However Mr Nicoli plays his new role, the task awaiting him is far from simple. The overweening question is how much longer EMI, a veteran bid candidate, can cling to its independence?

Once perceived as a plum vehicle for entering the then-dynamic music market, EMI has been vulnerable to an opportunistic bid since global record sales and profits stalled two years ago.

Bertelsmann, the German media and music group, has been weighing a bid for months, but is waiting for EMI's shares to fall before pouncing. Rupert Murdoch has also considered adding EMI to News Corporation's interests.

If Mr Nicoli avoids the embarrassment of having to cede EMI's independence, he will face a tough challenge in revitalising it.

There is no sign of an improvement in trading conditions, which remain unstable in Asia, and have deteriorated in Latin America and northern Europe this year. Mr Berry has cut costs so rigorously that future improvements will have to come from releases. And at present, there is no sign of a "windfall" success like the Beatles' *Anthology* albums or the Spice Girls' debut.

The music industry is also destabilised by the recent $11bn (£6.8bn) merger of Universal Music and PolyGram, and by the internet's emergence as an alternative distribution medium.

The internet raises the risk of greater music piracy, and possibly of artists eschewing record companies. But it also offers an opportunity for EMI and its rivals to sidestep record retailers by selling directly to consumers. This augurs ill for EMI's 42 per cent stake in HMV Media, one of the world's largest record retailers, but might help Mr Nicoli to redefine his group.

EMI could create lucrative internet sales business, and possibly sub-contract its existing distribution facilities to other internet retailers. Mr Nicoli might then reposition the group to investors as an internet content provider, and dispel future references to "Sir Colin Mark II".

The Beatles at the beginning of their 1964 American tour

# Apax Partners plans its first Japanese fund

**By Thorold Barker**

Apax Partners, the international venture capital group, will this week announce plans for its first Japanese fund, in conjunction with Globis Corporation, a Tokyo-based investment group with interests in venture capital, publishing and business education.

The 50/50 joint venture is looking to raise $100m-$150m, which could make it the largest foreign venture capital fund in Japan.

Apax, which has dedicated US, UK and European funds with over $3bn under management, has begun marketing to investors and is expected to close the fund by the end of the year. It plans to raise about 50 per cent of the cash from US institutions, 25 per cent from Europe and 25 per cent from Japan.

Investments will be focused on IT, telecommunications, media, healthcare and speciality retail. They will range from small early stage investments in growing companies to larger buy-outs.

Schroder Ventures, a UK competitor, which set up in Japan in 1985, has raised three funds including its latest of Y17bn ($140m). 3i, another UK venture capitalist, has a joint venture with the Industrial Bank of Japan, and has raised two funds of about Y5.6bn ($46m) each.

Yoshito Hori, who will be managing director of Apax Globis Partners, said Globis, which recently finished investing its first $5m fund, would bring local expertise, while Apax would bring its international network and experience in early stage investing. Apax's US and European presence would also allow the fund to arbitrage by buying undervalued companies in Japan and selling them on to US and European companies.

The Japanese venture capital market has been slower to develop than its Western counterparts in the US and Europe and is dominated by affiliates of Japanese banks, which specialise in providing growth capital to small companies without taking management control.

Ronald Cohen, Chairman of Apax said: "Although the Asian region has been experiencing a period of economic turmoil, we believe that the same entrepreneurial trends which have been so much in evidence in Europe will prevail in Japan and offer considerable opportunities."

There have been few buy-outs in Japan, but Japanese companies are under pressure to restructure and sell off non-core assets which many believe will help develop the market.

# Caradon set to announce £30m Turkish purchase

**By Charles Pretzlik and Sheila Jones**

Caradon, the building products group, is set to announce its first acquisition in five years with the £30m purchase of a majority stake in a Turkish radiator company.

It is also to announce the sale of three businesses, including its Everest windows operation, for £53.2m.

The deals represent an attempt by Jürgen Hintz, who took over as chief executive last May, to restore the group's fortunes after four years of share price decline.

Caradon is buying an 85 per cent stake in Termo Teknik, based 70 miles north-west of Istanbul. Caradon's last acquisition was the £800m purchase of the Pillar building products and electrical and engineering businesses from RTZ, the mining company.

Caradon's UK doors and windows business, including Everest, is being sold for £40.3m cash to Bardox, a private group backed by 3i, the venture capitalist.

Caradon is also selling BetterBilt, which makes aluminium windows in the US, to MI Home Products for $16.75m (£10.5m). It has sold Caradon Garador, the garage door maker, to its management for £2.5m. Mr Hintz plans to concentrate on fewer, larger businesses. The Termo Teknik buy is part of his drive to expand the group's radiator business.

"Termo Teknik provides us with an excellent position in the fast growing Turkish market together with important access to 10 other European countries, and increases our radiator sales by 20 per cent," he said.

Analysts expect Caradon to report pre-tax profits of £115m..

# Wembley board tipped to favour a sale to the FA

**By Charles Pretzlik**

The board of Wembley is expected to proceed with this week's shareholder vote on selling its stadium to the Football Association for £106m ($169m) despite a last-minute attempt to block the deal by SFX Entertainment, the US live entertainment promoter.

The board will meet today to consider a request received on Friday from SFX that the extraordinary meeting to consider the stadium sale be postponed for up to a month. SFX told Wembley that, if it had more time to examine Wembley's books, it could make an all-cash offer of at least 400p a share, valuing the group at £218m ($348m).

However, SFX's approach is likely to be firmly dismissed. The matter was first debated on Friday evening but that meeting was adjourned. The executive directors and Claes Hultman, non-executive chairman, are understood to consider SFX's proposals too insubstantial. They were contained in a letter to the board which fell short of constituting a formal offer. After the board sought clarification at the weekend, SFX confirmed it was not yet able to make an offer.

Wembley's executive directors believe they have the full support of their largest shareholders, including Phillips & Drew and Schroder Investment Management, who together speak for 34.4 per cent.

However, the Wembley board is split. Three non-executives – Jarvis Astaire, Peter Mead and Roger Brooke – encouraged SFX to approach Wembley because they argue that the deal with the FA erodes shareholder value.







# Inland Revenue denies Canary tax review

**By Norma Cohen, Property Correspondent**

The Inland Revenue yesterday denied it was reviewing Canary Wharf's hundreds of millions of pounds in tax breaks, a key part of its pre-flotation forecasts of profitability.

"There is absolutely no truth in the statement that we are examining the Canary Wharf tax position," an Inland Revenue spokeswoman said yesterday.

She was responding to press speculation that the Inland Revenue and the Treasury are preparing to scrap Canary Wharf's Enterprise Zone Allowances breaks, estimated to have a current capital value of around £400m, in the run-up to flotation.

In addition, Canary Wharf entered into an agreement in 1992 under which most of its future construction costs would be exempt from VAT.

A Treasury spokeswoman said the Department had been asked to investigate Canary Wharf's tax position last December by Michael Cassidy, a City lawyer and member of the Corporation of London who had formerly headed the Corporation's planning committee.

Gerald Rothman, a director of Canary Wharf, said that any effort to retrospectively rescind the tax reliefs would be "the most enormous breach of faith."

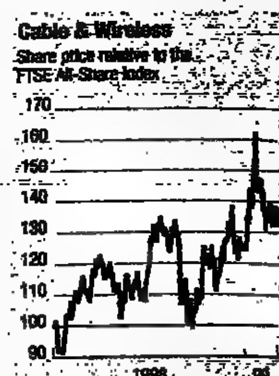
Separately, it has emerged that after Canary Wharf's flotation, Paul Reichmann, Chairman, will own 15 per cent of the company.

Under terms of an agreement Mr Reichmann's stake will rise to 10.8 per cent and he will be able to subscribe for warrants, exerciseable at around 450p per share, equal to another 4 per cent of its share capital.

Canary Wharf will then scrap a consultancy agreement it had with Mr Reichmann under which a company his family controlled earned £700,000 in fees in the year ended June 30 1998.

## COMMENT

# Cable & Wireless




Dick Brown may no longer be its chief executive, but Cable & Wireless has taken to heart his doctrine of selling or buying control of its minority investments around the world. The UK telecommunications group is considering taking over IDC, the Japanese international operator of which it has owned 17.6 per cent since 1987. At first sight, this seems strange. Although buying IDC would accord with the Brown doctrine, it goes against C&W's strategy of reducing its exposure to international telephony. IDC hardly looks like a must-have. International call rates in Japan are being squeezed hard by call-back services and the weak economy. IDC's profits are thought to have fallen by two-thirds last year. The outlook is little better. Deregulation this summer will allow the mammoth domestic operators into the overseas market. So why bother? One reason is to gain access to IDC's small but fast-growing internet transmission business. Having paid 3.5 times sales for MCI's US internet unit last year, coughing up perhaps one time sales or £300m for an immature Japanese counterpart seems potentially attractive. It also gives C&W a platform to build a Japanese network. One worry is that NTT, the largest domestic operator, is eyeing IDC as a way into the international market. But NTT cannot bid until deregulation occurs in July. C&W should bid soon or not at all.

### Wembley

SFX Entertainment of the US has come up with an intriguing 11th-hour proposal for Wembley plc. The snag is it is a mere proposal. And the clock is ticking on the Football Association's £106m offer to buy the Wembley stadium which accounts for about half Wembley plc's value and is due to be approved by shareholders on Thursday. Moreover, SFX's indicated bid for the entire company is nothing to crow about. Still, bump that up a bit and SFX's scheme could conceivably be a win-win situation for everybody: the FA would get the stadium at a cheaper price; SFX would keep a juicy management contract; and shareholders would receive cash. The snag is that both the FA and Wembley shareholders are likely to view the bird in the hand as worth two in the bush. If SFX wants to be taken seriously, it will have to demonstrate its commitment fast.

## NEWS DIGEST

**MEDIA**

### Chris Evans puts a bid in for the Daily Star

Ginger Media Group, the radio and television company set up by former disc jockey Chris Evans, has put in a bid to buy the ailing Daily Star newspaper from United News & Media, it emerged at the weekend. But the negotiations appear to have stalled over price and other issues.

The Daily Star is part of United's Express Newspapers arm. Yesterday an item in the Sunday Express, also owned by Express Newspapers, said Ginger Media had made an approach to the management of Express Newspapers to work together on the Daily Star, but nothing had materialised.

The circulation of the Daily Star, once in excess of 1m, has slumped to barely half that level in the last decade. Ginger Media is thought to have offered to buy the newspaper for about £20m worth Ginger Media stock. Ginger Media's current shareholders are Mr Evans, the company's managers, Richard Branson and Apax Partners, a venture capital company.

The Daily Star has a young readership profile that would appear to fit well with Ginger Media's other ventures. It targets 18-25 year olds, who also make up a high proportion of the audience for Ginger Media's radio and television programmes. These include Virgin Radio, acquired from Richard Branson in exchange for Ginger Media stock, and TFI Friday, Mr Evans's Channel 4 television programme. **Richard Tomkins**

**TECHNOLOGY**

### Axon listing to raise £13.8m

Axon Group, the technology consultancy, confirmed the price of its listing on the main market at 175p per share, valuing the company at £85.4m. The offer, eight times subscribed, will raise £13.8m in net proceeds. The company is selling 8.5m shares. Investors are selling a further 10.1m shares, bringing the total placing to 38 per cent of the enlarged equity.

Axon specialises in implementing business software produced by the German company SAP, but wants to exploit its leadership in adapting these systems to e-commerce.

WestLB Panmure, the company's broker, has forecast £4.5m in pre-tax profits for the year, which means Axon will begin trading on 11 March on a prospective p/e of 31 times. Mark Hunter, Axon's chief executive, said he hoped for a managed after-market. "Because of the heavy demand and the reasonable price, we need to make sure there isn't going to be a feeding frenzy". The adviser to the float is WestLB Panmure. **Caroline Daniel**

**INVESTMENT TRUSTS**

**SECURITY**

### Blick expands in South Africa

Blick, the entry systems, security and communications group, has bought General Control Systems, a South African-based design and development company specialising in time and attendance products for £2m cash.

GCS, which started life designing robust time and attendance products to clock in huge numbers of workers at South Africa's gold mines, will be integrated into Blick's South African arm. It will continue to design computerised time and attendance products which can be networked or designed with internet capability. **Lucy Smy**

**INVESTMENT TRUSTS**

### Temit to buy back shares

The investment trust run by emerging marketsinvestment guru Mark Mobius, said it plans to buy back up to 14.99 per cent of its shares in order to cut the discount and add value for shareholders. Templeton Emerging Markets Investment Trust (Temit) said the move was driven by the forthcoming change to tax rules, not by the arbitrageurs that are putting pressure on many other emerging markets trusts. **James Mackintosh**

## NEWS DIGEST

### JAPANESE BANKING

## Yasuda Trust warns of bigger loss than expected

Yasuda Trust and Banking, one of Japan's largest trust banks, has warned it is likely to to report larger than expected losses in fiscal year 1998, because of an extensive write-off of bad loans. The bank said on Friday it would report a Y290bn ($2.37bn) provision for bad loans, compared with an earlier forecast of Y130bn. It also said it would report a valuation loss of between Y200bn and Y250bn on its equity holdings. The bank downgraded its forecast of group net losses for the fiscal year from Y58bn to Y369bn.

The announcement follows similar warnings from Sumitomo Bank, Fuji Bank, Industrial Bank of Japan and Mitsubishi Trust, among others. These moves are the result of increasing government pressure on the banks to improve their financial strength before a planned injection of public money at the financial year-end.

Yasuda Trust is not applying for an injection of public funds, as it plans to strengthen its capital base by issuing Y300bn worth of new shares to Fuji Bank, a fellow member of the Fuyo industrial group. Fuji Bank has applied for Y1,000bn of public funds, and will be purchasing Y150bn of ordinary stock and Y150bn of preferred stock from Yasuda Trust. **Naoko Nakamae, Tokyo**

### INDUSTRIAL GASES

## Air Liquide sees more growth

Air Liquide, the French industrial gases group, has reported a 9.4 per cent advance in annual consolidated net earnings, from FFr3.09bn to FFr3.38bn (€515m, $559m). Earnings per share increased at the same rate, from FFr37.49 to FFr41.04. Operating income rose by 8.3 per cent to FFr5.56bn on sales 4 per cent higher at almost FFr40bn.

Alain Joly, chairman, said 1998 had seen a "substantial acceleration" in the growth of sales of gases and services, net earnings and cash-flow, in spite of economic slowdowns in Asia and in the semiconductor industry. He projected that the company should grow in the current year "at a pace similar to 1998". A dividend of FFr15.74 a share was proposed. **David Owen, Paris**

### GERMAN POST OFFICE

## Anti-trust probe extended

The European Commission, the executive arm of the European Union, has extended by a further four months its anti-trust investigation into plans by Deutsche Post, the German post office, to take control of Schnell-Lieferdienst, also known as trans-o-flex from Industrial Information, a holding company.

"The Commission has serious doubts about the compatibility of this project with the common market, since the investigations indicate that trans-o-flex is also to some extent active on markets where Deutsche Post already has substantial market shares, in particular the national and international parcel service and the national and international express delivery service," said the Commission.

Trans-o-flex provides logistics and transport services in Germany, Austria and a number of other EU countries for business users. **Emma Tucker, Brussels**

# Merrill chief takes 11% cut in pay

**By Tracy Corrigan in New York**

David Komansky, Merrill Lynch chairman and chief executive, took an 11 per cent cut in his 1998 compensation to $9.9m, reflecting Merrill's weaker performance last year.

Merrill suffered losses in fixed income business last autumn, amid the turmoil surrounding Russia's default on its domestic debt and the near-collapse of the hedge fund Long-Term Capital Management.

Some senior jobs, including the head of fixed income and risk management, were subsequently reshuffled. Although other firms also suffered, some of Merrill's peers – most notably Morgan Stanley Dean Witter – fared considerably better. Merrill reported net earnings last year of $1.26bn, down 35 per cent from $1.94bn in the previous year.

Merrill's stock has also suffered because of perceived strategic problems facing the investment banking and brokerage giant, including how to respond to the explosion of share trading on the internet.

However, Merrill retained its position in 1998 as the leading underwriter in debt and equity offerings globally for the 10th consecutive year, and gained market share in mergers and acquisitions, where it ranked second globally with a market share of 31.9 per cent, according to Securities Data.

Mr Komansky's cash compensation of $5.2m, made up of a basic salary of $700,000 and a cash bonus of $4.5m, was down 33 per cent from $7.8m in 1997. He was granted $1.1m of restricted stock and stock options valued at $3.6m.

Herb Allison, Merrill's chief operating officer, received total compensation of $7.9m, down from $8.8m in 1997. It consisted of a salary of $500,000, a cash bonus of $4.1m, restricted stock worth $848,000 and stock options valued at $2.9m.

# Deutsche looks to widen its horizons

The bank is seeking growth opportunities in the euro-zone, writes **Tony Barber**

Deutsche Bank's decision, announced last week, to build a branch and telephone banking network in France illustrates the frustrations that German banks face in trying to make profits at home and the wider opportunities beginning to emerge from European monetary union.

With a mere 10 per cent share of the German market for credit and deposits, Deutsche and the other two big commercial banks, Dresdner Bank and Commerzbank, have long been eager to maximise profits from other activities, such as investment banking, asset management and services for wealthy private clients.

Expansion in the euro-zone, which is turning into a unified capital market as large as that of the US, is another important element in the strategy of German banks. And from an investor's point of view, it may make more sense than the banks' ambitions to compete with the most powerful Wall Street investment banks.

German banks disappointed investors last year by producing a mere 3 per cent return on their share prices, compared with an average 14 per cent for the whole stock market. Since July, just before Russia's financial collapse, shares in Dresdner have lost 47 per cent of their value and those in Deutsche and Commerzbank have fallen 30 per cent.

"The large commercial banks did poorly," according to a report by Fox-Pitt, Kelton, an investment house in London. "Their underlying profitability remained mediocre and sentiment was badly affected by the relatively aggressive expansion into international investment banking, which has worsened earnings quality and created the impression of strategic risk."

By contrast, expansion in the European "home market" seems a safer bet. Even before the euro's launch last January, Deutsche anticipated its arrival by acquiring stakes in Italy's Banca Commerciale Italiana and Unicredito and developing its retail banking presence in Italy and Spain.

It also bought the Belgian business of Crédit Lyonnais for DM1bn (€511m, $555m) and acquired a 10 per stake in Eurobank, a leading bank in Greece, which hopes to adopt the euro in 2001. All this took place as Deutsche was arranging the $10bn takeover of Bankers Trust, an acquisition that will turn it into the world's largest bank in terms of assets.

"Size alone is no substitute for strategy," observes Deutsche's chairman, Rolf Breuer. "Mergers, alliances and co-operations cannot be goals in their own right."

At the same time, he justifies his recent acquisitions in Europe on the grounds that Deutsche must be one of the five to 10 banks that he thinks will soon emerge to dominate the euro-zone market. "The market doesn't need more," he says.

In terms of branch networks, Deutsche is positioning itself to become the best-placed bank in Europe, but its German rivals are just as active on other fronts.

After reaching an agreement last November to co-operate with Italy's largest insurer, Generali, Commerzbank said in January it would build up an Italian sales force of 1,000 specialists to offer various types of fund investments. It also plans to focus strongly on telephone and internet sales.

Moody's Investors Service says co-operation between banks and insurance companies to distribute each other's products is an important part of banks' European strategies in the age of monetary union. What Commerzbank has done is expand this concept beyond Germany into Italy, the euro-zone's third biggest economy.

Germany's commercial banks have been pushed into such innovations largely because the fragmented nature of the domestic market and the dominance of public sector banks under political influence make it impossible for them to generate sufficient profits in Germany.

With more than 3,300 banks, Germany is Europe's most saturated banking market and, according to an analysis by Goldman Sachs, "structural and political considerations still greatly inhibit meaningful capacity reduction".

Also, the big commercial banks are likely to be less able in the future to count on traditional "relationship banking" with large corporations as a mainstay of their business. At present, European banks hold about 70 per cent of corporate debt on their balance sheets, but that is sure to come down.

As in the US, where banks hold only 22 per cent of corporate debt, companies in the euro-zone will find it easier and cheaper to issue debt directly on the market, making it less necessary for banks to intermediate in the financial system.

"One of the banks most exposed to the problem of 'disintermediation', due to its existing business, is Deutsche Bank," the Fox-Pitt, Kelton report said.

Deutsche's expansion in France represents an attempt to anticipate such problems by taking advantage of the emerging single European financial services market. But it remains to be seen whether Deutsche's move will enthuse investors enough to lift either its own stock market performance or that of the German banking sector in general.

**German banks**
*Sustainable returns and capital allocation by business line*

Schroder's estimates of capital allocated to each business line as % of NAV

| Deutsche | Dresdner | Commerz | | Return on capital (%) |
|---|---|---|---|---|
| 11 | 12 | 19 | Syndicated lending | 3 |
| 58 | 63 | 20 | Industrial portfolio | 4 |
| 0 | 0 | 0 | Life insurance | 4 |
| 4 | 0 | 0 | Non-life insurance | 6 |
| 3 | 5 | 4 | Institutional asset mgmt. | 7 |
| 23 | 28 | 47 | Retail banking | 10 |
| | | | Corporate banking | 14 |
| 9 | 12 | 7 | Investment banking | 14 |
| 2 | 3 | 2 | Retail asset mgmt. | 20 |
| 1 | 0 | 1 | Private banking | 26 |

Source: Schroders

# Mexican group buys bankrupt retailer

**By Andrea Mandel-Campbell in Mexico City**

Grupo Elektra, the Mexican appliance and furniture retailer, has beaten its rival, Carso Comercial, in an auction to buy Grupo Salinas y Rocha, the bankrupt retail chain.

Elektra offered $78.5m for a 94.3 per cent stake in the listed company, which is in the hands of bank creditors and a government-sponsored bail-out fund.

One quarter of the offer will be paid in cash, Elektra said, with the remainder covered by a long-term syndicated loan.

With the sale, Ricardo Salinas Pliego, majority owner of Elektra, will regain control of the chain founded by his great-grandfather in the industrial city of Monterrey in 1907.

Elektra says it is looking to restore the fortunes of Salinas y Rocha, which has been hit by its deteriorating financial situation – losses last year totalled 217m pesos ($22m).

Nonetheless, Salinas y Rocha boasts an extensive database of an estimated 3m customers, which is highly valued by its competitors in Mexico, where credit information is virtually non-existent.

Elektra will hold on to the chain's 86 smaller appliance stores but said it would sell the group's 11 department stores.

The most likely buyer of the department stores is Carso Comercial, which bought out Sears, the US department store chain, in Mexico, and owns Sanborns, a local retailer.

# DaimlerChrysler may move to ensure Nissan truck link

**By Uta Harnischfeger in Frankfurt**

A DaimlerChrysler board member has indicated that the German-US carmaker is considering acquiring a stake in Nissan Motor, mainly to prevent other motor vehicle makers from spoiling the likely capital tie-up between DaimlerChrysler and Nissan Diesel, in which Nissan Motor holds a 40 per cent stake.

That contrasts with recent remarks by DaimlerChrysler executives, who have called a business partnership with Nissan Motor attractive by itself, since it would make DaimlerChrysler the only truly global vehicle maker and help its ambitions to become a major force in passenger cars in Asia.

"In the short-term we can do without a foothold in passenger cars in Asia, but we *cannot do without one in trucks*," said Juergen Hubbert, DaimlerChrysler board member in charge of passenger cars.

Entering the Asian truck business "is most urgent for DaimlerChrysler, but Nissan Diesel and Nissan Motor are interwoven in such a way that we are forced to talk about both" co-operating in trucks as well as in passenger cars, Mr Hubbert said.

Regarding Japanese newspaper reports that France's Renault and DaimlerChrysler are in the final stages of talks with Nissan Motor, and that DaimlerChrysler may even consider a majority stake, Daimler said: "The issue hasn't been decided in either direction yet."

Instead, it refered to recent statements by Jürgen Schrempp, DaimlerChrysler chairman, that the group *would decide on Nissan* within three months.

Despite concerns over Nissan Motor's debts – its consolidated interest-bearing debt is estimated at about $34bn – Mr Hubbert conceded that Nissan Motor would help DaimlerChrysler to achieve its aim of 20-25 per cent of group sales being in Asia within 10 years.

Since early 1998, DaimlerChrysler has co-operated with Nissan Diesel in developing and producing a light truck, which set off talks about a possible equity tie-up. The talks entered a new chapter in January, when the management of the parent company, Nissan Motor, conceded that it would welcome a foreign partner, a step endorsed shortly thereafter by the Japanese trade ministry.

## CROSS-BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| GEC (UK) | Reltec (US) | Telecoms equpmt | $2.1bn | Sector build-up |
| Alcatel (France) | Xylan Corp (US) | Telecoms equpmt | $2bn | Network boosting |
| Danisco (Denmark) | Cultor (Finland) | Food | $1.4bn | New number one |
| Tieto (Finland) | Enator (Sweden) | Computer srvcs | $1bn | Pan-Europe move |
| KBC (Belgium) | CCF (France) | Banking | $680m | Wins stake auction |
| Billiton (UK) | Ingwe (Australia/SA) | Mining | $488m | Minorities buy-out |
| Swiss Re (Switz) | Unit of Royal & Sun (UK) | Insurance | $385m | US disposal |
| Alcatel (France) | Assured Access (US) | Computer equpmt | $350m | Plugging a gap |
| Billiton (UK) | QNI (Australia) | Mining | $275m | Minorities buy-out |
| Corning (US) | Unit of BICC (UK) | Telecoms equpmt | $132m | BICC reshaping |

## COMPANIES & FINANCE

# Spanish bank aims for 25% profits rise

By Tom Burns in Madrid

Spain's BSCH, the euro-zone's newest bank, made its debut over the weekend with the announcement of a plan to lift annual net profits by 25 per cent this year and in 2000.

Shareholders of Banco Santander and Banco Central Hispano, BCH, the bank's two constituent parts, separately approved the merger, which was announced in January and will be completed in the third week of April.

Santander will increase its capital by Pta72.2bn (€434m, $471m) in order to exchange three Santander shares for five of BCH.

The combined banks will nearly double the size of second-ranked Banco Bilbao Vizcaya and account for 17 per cent of domestic loans, 18 per cent of deposits and 22 per cent of Spain's mutual funds market.

BSCH will also have a premier franchise in Latin America, where Santander accounts for 6 per cent of the region's deposits.

BCH is negotiating its withdrawal from a joint venture with Chile's Grupo Luksic that owns banking stakes in Argentina, Chile, Paraguay and Peru. BCH is likely to swap its stake in Chile's Banco Santiago, which competes directly with Santander's Chilean unit, for the stakes that it jointly holds with Luksic elsewhere.

The consolidation of BSCH's interests in Latin America will gain it at least 10 per cent of the banking business in the region's main financial markets.

As the third largest euro-zone bank by market value, BSCH will be able to build on the network of alliances and cross-shareholding arrangements that Santander and BCH have separately forged with Royal Bank of Scotland, Italy's San Paolo-IMI, Société Générale of France, Germany's Commerzbank and Banco Comercial Português.

"Size is essential in order to be competitive and efficient," said Emilio Botín, Santander chairman and co-chairman of BSCH with José María Amusátegui, BCH chairman. "We now have the bank we needed to compete in Europe."

Mr Botín dismissed speculation of a possible disposal of Banesto, Santander's subsidiary banking unit, saying a bank required an impregnable domestic position in order to compete decisively in Europe.

Analysts believe integration problems will be offset by cost savings and by the scope for selling off non-strategic assets.

Carlos Pertejo, of J.P. Morgan in London, estimates that BSCH has unrealised capital gains of €7.5bn – about 23 per cent of its bank's market value – in industrial holdings, real estate, bonds and stakes in other European banks.

Angel Corcóstegui, BSCH chief executive, said he intended to lift attributable profit from €1.2bn last year to €1.5bn this year and €1.9bn next year. He is also seeking to increase return on equity from 16.5 per cent in 1998 to 19 to 20 per cent in 2000.

**GOVERNMENT BONDS** JAPANESE MARKET IS NERVOUS ABOUT THE NEXT MOVE BY THE SECRETIVE TRUST FUND BUREAU

# Reluctant emergence into the spotlight

By Gillian Tett in Tokyo

Until recently, Japan's secretive Trust Fund Bureau only attracted attention from financial boffins. This spring, though, it is enjoying an unwelcome burst of market fame.

For in recent months the TFB has delivered two shocks to the bond markets: in December it announced it would stop its monthly Y200bn ($1.62bn) purchases of Japanese government bonds because of a funding squeeze; then last month it suddenly announced that it would buy Y400bn of bonds in February and March.

And as investors reel from these U-turns, the crucial question now is whether the TFB is about to deliver a third shock – and not only stop its JGB purchases after March, but actually *sell* some of its existing Y84,000bn holdings of JGBs?

The Ministry of Finance, which effectively manages the Bureau's affairs, insists that the answer is "no". For although it is undecided whether JGB purchases will continue after April, Ministry officials argue that "the market rumours about us selling JGBs are absolutely not true".

These statements have done little to reassure nervous investors, however. For the funding squeeze that the Bureau revealed in December looks set to intensify in the coming years. And with this, the temptation for the Bureau to sell its JGBs will grow.

As Yoichi Tazawa, head of fixed income research at Nomura says: "There is a growing perception in the markets that the Bureau may start to sell JGBs soon."

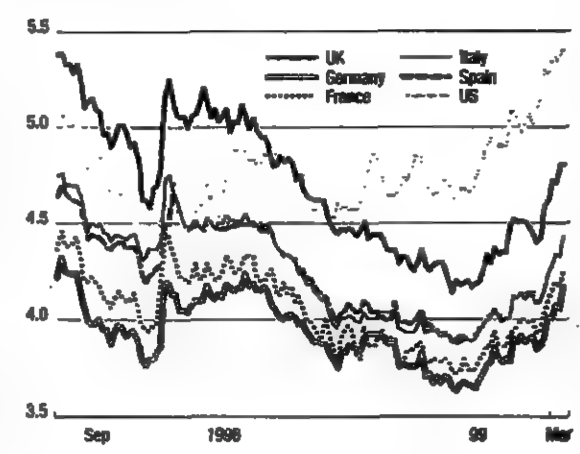
The issue is particularly un-nerving for investors because it is difficult to judge just how much of a "squeeze" the Bureau actually faces. This is partly because of a lack of information. The government publishes few timely details of the Bureau's financial operations.

Meanwhile, Western investment banks have not delved too deeply because the postal savings system, which provides most of the Bureau's funds, is also a key client for investment banks. "If we offend the Post Office, our fixed income business would suffer," admits one analyst.

But the other problem is that the funding squeeze now essentially depends on the volatile political climate and, above all, on the fate of the national postal savings system.

10-year benchmark bonds

Per cent




Source: Datastream/ICV

In fiscal 1998 this postal savings system provided some Y239,000bn of the Bureau's Y418,000bn funds, with most of the remainder coming from the employee pension system. But around Y100,000bn of these postal savings funds are now locked up in 10-year time deposits that mature in 2000 and 2001.

Since these deposits were taken out at high interest rates, it is presumed that most of these funds will be removed. The postal savings system, for example, guesses that about Y50,000bn, or half the funds, could disappear.

However, the scale of any withdrawal could depend on whether the government maintains its safety net for the banking sector beyond 2001, and the overall interest rate environment at the time.

Thus far, these pressures have not directly reduced the Bureau's funds. Indeed, the Bureau actually expects the size of the postal savings system to *increase*, not decrease in fiscal 1999, as nervous savers keep withdrawing money from banks.

As December's "shock" decision shows, however, the pressures on the Bureau are now mounting for two reasons. First, the Bureau is now trying to take pre-emptive steps to prepare for 2001, by shuffling its portfolio away from long-term JGBs into more liquid instruments. Second, the Bureau's funds for JGB investment are being reduced because politicians are demanding the Bureau spend more on politically sensitive projects, such as loans to cash-strapped local governments and government banks.

Overall spending on the Fiscal and Investment Loan Programme, which manages such spending, is projected to rise 7.3 per cent in fiscal 1999, compared with a projected 6.8 per cent drop in the original 1998 budget.

Meanwhile, emergency loans to cash-strapped local governments are projected to rise by around Y6,000bn in fiscal 1999 to Y30,000bn, further squeezing Bureau funds. Such expenditure could, in theory, be halted if the government suddenly decided it wanted to free up more funds to support the bond markets. Indeed, the scale of Bureau funds is such that spending a billion more on bonds each month is not an onerous task.

The cash to fund the Y400bn JGB purchases in February and March, for example, is coming from a "surprise" surplus of several trillion yen that emerged last year in the state mortgage system. This surplus apparently appeared because lenders rushed to repay fixed-rate loans last year as interest rates fell.

This financial juggling should avert serious pressure at the Bureau in fiscal 1999 – meaning it can almost certainly avoid any bond sales for the moment if it truly wishes. But this uncertain, opaque system does not create the type of safety net that could instil market confidence.

The Bureau, in other words, may be able to avoid delivering a "third shock" this spring but the threat of a shock looks set to haunt the bond markets for the foreseeable future.

# Sugar prices expected to fall further

By Paul Solman

World sugar prices are likely to sink further this week as Brazil's falling currency and increasing production put pressure on the market.

Raw sugar futures dropped to a 12-year low of less than 5.5 cents in New York last week, against 8.6 cents a pound just two months ago, while London's white sugar futures hit $202 a tonne, the weakest for more than 11 years.

"The lower Real has made Brazilian sugar production and exports so cheap that no one else on the world market can compete," one analyst said.

Global sugar production has outstripped consumption since 1994, but in the past two years the market has suffered additional pressure from the economic difficulties in Asia and Russia, which have slowed demand.

In the meantime, sugar production has been growing, hitting a record of almost 130m tonnes in the 1998-99 season.

Brazil's sugar cane harvest surged to a record of more than 300m tonnes last year as more land was planted to the crop.

However, that growth coincided with the deregulation of the domestic alcohol market, which led to heavy oversupply of alcohol.

As a result, many sugar cane growers in Brazil have been diverting their cane from alcohol production to sugar. The country's sugar production grew 17 per cent last year to almost 19m tonnes, overtaking the European Union as world's largest producer.

"Under normal circumstances, as oversupply and higher stocks push down prices, producers scale back," one analyst said. "But the devaluation of the Real has meant Brazilian farmers can make a profit even at very low prices, so there is no incentive for them to cut production."

Since the Brazilian currency fell to more than R$2 to the US dollar, the same income has been generated from sugar export sales at 5.5 cents as when the market was 9 cents, according to a report last week by E.D.& F. Man, the international commodity brokers.

With the Real continuing to fall, some analysts believe the sugar price could go as low as 4 cents a pound.

They are also concerned about long-term damage to the market. Domestic sugar markets in many parts of the world are protected by regulation. EU countries, for example, produce sugar beet for their own consumption at prices guaranteed by Brussels.

# Hoogovens may end UGB venture

By Gordon Cramb in Amsterdam

Hoogovens, the Dutch metals producer, is prepared to abandon its steelmaking joint venture with Belgium's Usines Gustave Boël after only two years, unless the Belgian authorities end a wrangle over redundancies.

The venture accounted in large measure for Fl 174m (€79m, $86m) in write-offs taken by the Dutch group last year. These led to a 17 per cent fall in Hoogovens' net profits, announced on Friday, to Fl 415m.

The group was hit by an inflow to Europe of cheap steel from Asia, while the Hoogovens-UGB offshoot suffered from strikes as the 1,300 workers fought to defend their jobs. The venture sought court protection from creditors in October.

The government of Belgium's Wallonia region has criticised a rescue plan drawn up by Hoogovens, and is refusing to contribute financially to the restructuring until it secures guarantees on employment. Fokko van Duyne, chairman, said if the authorities maintained this position, Boël would have to continue "without Hoogovens".

The Dutch company – whose sales grew 8 per cent last year to Fl 10.81bn as its aluminium division performed strongly – is under pressure from its own unions. They say funds invested in Hoogovens-UGB meant that more promising domestic projects were being deprived of capital.

Hoogovens said capital investment would increase only slightly this year. In 1998 it spent Fl 993m, a rise of 71 per cent. It expects Fl 150m in annual savings from co-ordinating its purchasing and about half that much again through limiting overheads.

Hoogovens said the market was "too uncertain to formulate any expectations for 1999", although there were signs of stabilisation.

# ANZ to sell fund manager

By Edward Luce, Capital Markets Editor

ANZ Bank is to sell its emerging market fund management business, in the latest sign of the Melbourne-based group's retreat from international investment banking.

The sale – to a group of London-based executives in a management buyout – follows the decision in October to close its London-based capital markets operations after heavy losses on proprietorial trading of Russian debt.

The MBO – for an undisclosed sum – leaves ANZ Investment Bank with a skeletal version of its former business including its project and syndicated loan divisions. But most observers think it is only a matter of time before ANZ closes its investment banking arm altogether.

The buy-out, led by a team of eight former ANZ employees, results in the creation of Ashmore Investment Management, which will inherit a pool of funds worth about $500m, most of it invested in emerging market debt.

Ashmore, which is expected to remain one of the leading active fund managers in emerging market debt, hopes to build much of its reputation around its recently launched Asian Recovery Fund and its Asian Value Fund, which is aimed at US institutional investors.

The buy-out is majority financed by a combination of loan finance and equity stakes taken by the leading executives. Alchemy Partners, a London-based direct equity investor, will take a minority stake.

"We want to direct a lot more of our business to the large US funds," said Jerome Boothe, who will be head of research at Ashmore.

Mark Coombs, who founded ANZ's emerging market fund management arm in 1992, will be managing director of Ashmore.

# Slovenia takes debt lead

By Kevin Done, East Europe Correspondent

The Republic of Slovenia has re-established itself as the premier borrower from central and eastern Europe by gaining the finest terms for its €400m bond of any issue from the region this year.

The growing volume of issues from central Europe reflects the recovery of investor appetite for risk from the region, although the price of access varies greatly. New issues are expected in coming weeks from Lithuania and Slovakia.

Slovenia, the highest rated country in central and east Europe, has narrowly outperformed Hungary, which had previously set the pace, as east European borrowers overcome the problems created by last year's financial crisis in Russia.

Slovenia launched its first 10-year euro-denominated bond on Friday, priced at 86 basis points over the equivalent German bunds. The issue was lead-managed by Credit Suisse First Boston and Morgan Stanley Dean Witter.

Hungary set the pace in late January with the launch of its first 10-year euro-denominated bond priced at 87 basis points over bunds in an issue lead-managed by DG Bank and J.P. Morgan. The spread on the Hungarian bond had widened to 92 basis points by last Friday, when the Slovenian bond was issued.

Slovenia is the only country from former communist east Europe with an investment grade single A credit rating from the leading international rating agencies; Single A from Standard & Poor's and A3 (the equivalent of A–) from Moody's.

It is the most developed country from the region, with a GDP per capita last year of $9,921, which is already close to the level of the poorest members of the European Union.



## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 5, 1999. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | EURO € | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 7807.61 | 4739.25 | 5139.22 | 3865.42 |
| Albania | (Lek) | 226.398 | 140.658 | 152.813 | 115.832 |
| Algeria | (Dinar) | 103.904 | 64.5280 | 70.8463 | 52.7530 |
| Andorra | (French Fr) | [illegible] | 6.0454 | 6.5598 | 4.9443 |
| | (Sp Peseta) | 246.808 | 153.344 | 166.386 | 125.414 |
| Gibraltar | (Gib £) | 1 | 0.6213 | 0.6741 | 0.5081 |
| Greece | (Drachma) | 477.768 | 296.565 | 321.777 | 242.541 |
| Greenland | (Danish Krone) | 11.0259 | 6.8480 | 7.4304 | 5.6007 |
| Grenada | [illegible] | 4.3461 | 2.7000 | 2.9296 | 2.2082 |
| Guadeloupe | (French Fr) | 9.7310 | 6.0454 | 6.5596 | 4.9443 |
| Panama | (Balboa) | 1.6097 | 1 | 1.0851 | 0.8179 |
| Papua New Guinea | (Kina) | [illegible] | 2.2730 | 2.4663 | 1.8590 |
| Paraguay | (Guarani) | 4672.01 | 2902.50 | 3149.26 | 2373.84 |
| Peru | (New Sol) | 5.4946 | 3.4135 | 3.7039 | [illegible] |
| Philippines | (Peso) | 63.0179 | [illegible] | [illegible] | [illegible] |

# Canadian mine in deal with De Beers

By Gillian O'Connor in London and Scott Morrison in Toronto

De Beers of South Africa has signed a deal with BHP, the international mining group, to sell 35 per cent of the diamonds produced at Canada's first diamond mine.

The deal brings the Canadian diamonds under De Beers' marketing cartel and should improve prospects for long-term stability in the global market, which has been badly hit by Asia's economic upheaval.

The US$700m Ekati mine near Yellowknife, 200km south of the Arctic Circle, is expected to produce $400m-$500m worth of diamonds a year, about 5 per cent of the world total.

The mine is 51 per cent owned by Australia-based BHP, with Diamet of Canada having 29 per cent, and the two original prospectors – Chuck Fipke and Stewart Blusson – 10 per cent each.

Production at Ekati began in October and so far BHP has sold all the diamonds itself in Antwerp. Analysts had been watching to see if De Beers would get hold of the Canadian production.

De Beers runs an international marketing cartel through its London-based Central Selling Organisation, which accounts for 70 per cent of rough diamond sales.

The cartel props up prices by stockpiling diamonds and restricting supplies when demand is poor – as it has been since the Asian crisis.

In 1998, sales fell 28 per cent to $3.3bn, and the stockpile ended the year at $4.7bn, without counting stocks held at the mines. Production quotas have been in force for some time, though the diamond market has picked up slightly this year.

Tim Capon, De Beers' director, admitted the company would have liked more than a 35 per cent share of Ekati's production, but said he was relieved that a deal had been reached.

BHP had argued that US anti-trust provisions mean any agreement with De Beers would have to cover less than 50 per cent of Ekati production. But the Australian group says it will benefit from the agreement because it is assured of a certain level of sales in all market conditions, and because it can learn from De Beers' marketing expertise.

Some analysts suggest it may also have been reluctant to offend De Beers, given the latter's dominant position in the market.

The South African company announces its 1998 results tomorrow. The recent improvement in the diamond market is expected to increase the chances of De Beers maintaining its annual dividend. One analyst also pointed out that it could be tactless to cut the dividend shortly before the London listing of Anglo American, with which de Beers has substantial cross shareholdings.

# Chevron forced to revise earnings

By Hillary Durgin in Houston

Chevron, the US oil group, is to revise its fourth-quarter earnings to reflect a charge of $637m because of an Oklahoma Supreme Court ruling on a 1992 law suit relating to a terminated acquisition deal.

The California-based oil company, which made the announcement after the close of New York trading on Friday, said it would aggressively seek a further review of the March 2 ruling in court, but was required under accounting rules to recognise the potential loss.

The charge reduces Chevron's quarterly net income to a loss of $206m, or 31 cents a share, compared with its previously reported profit of $431m, or 66 cents.

Net income for 1998 was reduced to $1.34bn, or $2.04 a share, from the $1.98bn reported previously. Operating earnings for 1998 of $1.95bn were not affected.

The charge reflects an increased reserve for the potential after-tax impact of the original judgment, which was made in July 1996, totalling $742.2m, plus interest until December 31 1998.

The case originates from a lawsuit filed in 1982 by Cities Service, an Oklahoma-based oil company, when Gulf terminated its plans to acquire Cities Service.

Since the suit, both companies have been acquired: Cities Service by Occidental Petroleum, and Gulf by Chevron.

**EMERGING MARKETS** RETURN TO CIVILIAN RULE IN NIGERIA SHOULD LIFT INVESTOR CONFIDENCE, SAY BROKERS

# Election gives Lagos chance to shine

William Wallis in Lagos

Lagos stockbrokers feel the time has come for Nigeria to live up to its potential as the region's largest market. One hundred and twenty of them have contributed $10,000 each to banish the classroom feel of the trading floor, equipping it with new furnishings and an electronic trading system that should be operational by April.

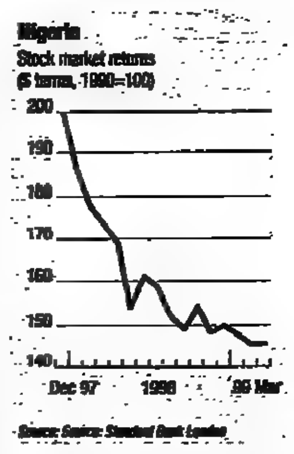
The end to a 15-year succession of corrupt military regimes is in sight following the election last week of a civilian president, Olusegun Obasanjo, and brokers hope that will boost equity investment, inspire confidence among overseas investors and help reverse a slide that has seen almost everyone take losses since early 1997.

But hopes of a rapid market recovery are as fragile as the prospects of civilian rule bringing the political stability required at a time of economic crisis.

Since the beginning of the year, the All Share Index has hovered around 5,500, down 36 per cent from its high in 1997. This reflects a steep overall decline in corporate earnings since the mid-1990s. A survey of corporate turnover and earnings, based on the results of 45 listed non-financial companies between 1993 and 1998, shows that while sales have virtually trebled, earnings rose just 14 per cent. Since 1995, after-tax profits have plunged more than 40 per cent.

There are signs of returning confidence, however. For example, Nigeria Bottling Company's planned rights offer next month is the market's largest to date, at 3.6bn naira ($41m).

The most exciting development for the bourse is the privatisation programme initiated by the military administration of Abdulsalami Abubakar. The plan is to sell off the largest (and most mismanaged) state industries including the telecommunications group, Nitel; power company Nepa; fertiliser plant Nafcon; and oil refineries. If the right foreign partners are found, the programme could bring the biggest inflow of foreign investment the country has seen outside the upstream oil industry, Nigeria's dominant foreign exchange earner.




It should also improve efficiency of the main utilities, providing long-term benefits for companies that have been crippled by recurrent fuel shortages and the collapse of infrastructure.

However, delays in the privatisation programme mean that the main boost for the bourse this year is likely to come from the flotation of residual government-owned shares in some of the smaller companies. Brokers believe shares in cement manufacturing, fuel distribution and banks could bring in up to $150m.

Much will depend on the civilian government's ability to provide decisive leadership. The successful People's Democratic Party gave little indication of its economic policy intentions during hurried election campaigning, although the failings of state industry have brought broad public support for privatisation in particular and market liberalisation in general.

But the military has bequeathed Nigeria some of the worst economic figures since independence. In particular, one worry for foreign investors will be the likelihood of a significant depreciation this year in the naira after two years of relative stability.

If the brightening political climate has not yet been reflected in the market, that may be because sluggish regulations are still weighing it down. Although there have been improvements in the efficiency of some trading procedures, there is room for more.

The required "delivery versus payment", initiated when the All-Share Index was at a record high in April 1997 in order to prevent failed trades, has impeded the dynamics of the market. "Pre-funding is putting so much pressure on brokers, who on the whole are poorly capitalised," says one. Brokers are obliged to fund their trading with bank borrowings, but the charges incurred often wipe out their margins.

The time factor – some deals with foreign investors take more than 21 days to complete – may be another reason why a series of recent improvements in corporate results, notably from subsidiaries of Guinness and Cadbury-Schweppes, have yet to affect the market significantly.

# HK economic problems hit publisher

By Louise Lucas in Hong Kong

Net profits at South China Morning Post (Holdings), publisher of Hong Kong's main English-language newspaper, were nearly halved to HK$207.3m ($26.6m) in the six months to December 31, as the territory's economic woes dented advertising revenues.

SCMP, which reported net profits of HK$411.69m for the same period in 1997, gains most of its revenues from advertising, especially classifieds. This has been hard hit by the rise in unemployment, which now stands at 5.8 per cent, the highest level in more than two decades.

Together with falling property and share prices, this has conspired to depress consumer confidence and further curb advertisers' willingness to spend. Circulation revenue, however, has been only marginally affected.

Kuok Khoon Ean, chairman, warned shareholders that this year would be similarly taxing. "1999 will likely prove to be no less difficult than the second half of 1998, with little sign of any recovery in sentiment or business prospects in Hong Kong at least for the near term," he said. "For so long as these conditions pertain, the company's earnings will inevitably continue to remain depressed."

SCMP's results at the halfway stage were lifted by a HK$31.47m exceptional profit on the sale of a 49 per cent stake in four magazine titles. However, this gain was erased by HK$43m worth of provisions made against the fall in value of investment properties.

The fall in property values has taken its toll on the surplus reserve, which is made up of revaluation gains. The revaluation surplus as at 30 June 1998 was reduced from HK$192m to HK$3m.

Earnings per share almost halved, in line with the fall in net profits, from 23.78 HK cents to 11.98 HK cents. Excluding the exceptional items, earnings per share at the halfway stage came to 12.64 HK cents.

Shareholders are to receive an interim dividend of 10 HK cents, down from 15 HK cents for the same period in 1997.

# Veba hit by start-up loss

By Uta Harnischfeger in Frankfurt

Heavy start-up losses at its telecommunications division will mean 1998 net profits at Veba, the diversified German industrial and energy group, will have fallen below 1997 levels.

Veba's 51 per cent stake in telecoms group o.tel.o will reduce its 1998 earnings by about DM940m (€480m, $522m), while restructuring costs at its US subsidiary, MEMC, which produces wafers for the semiconductor industry, will drag down profits by approximately DM380m, according to a report in Welt am Sonntag.

Overall, o.tel.o and its 60.25 per cent stake in mobile telephone company e-plus will incur a loss of DM2.3bn in 1998, the paper added. In 1999, o.tel.o expects this loss to be reduced to DM1.5bn.

Veba, which expects e-plus to break even in 2000 and o.tel.o in 2002, yesterday declined to comment on its 1998 figures. It is due to present its full-year results on March 25.

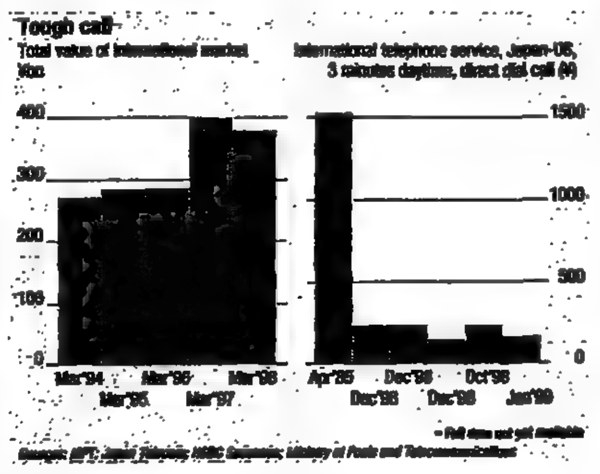
Ulrich Hartmann, Veba chairman, is undertaking an ambitious drive to refocus on the energy sector, specialty chemicals, telecommunications as well as trade and services, and plans to invest about DM31bn in the next four years. In 1997, Veba's sales rose 11 per cent to DM82.7bn and its net profit after third parties rose 14 per cent to DM2.8bn.

Veba's telecom operations have been burdened by higher than expected start-up costs for its fixed-line services. The company has also been hit hard by losses at MEMC, as a result of overcapacity in the industry and the resultant price pressures.

# C&W shakes up Japan

NTT set to resist UK telecoms group's interest in IDC, writes **Michiyo Nakamoto**

Cable and Wireless' interest in International Digital Communications will come as a rude awakening to corporate Japan. The UK telecoms group's ambitions not only raise the prospect of an unprecedented hostile takeover by a foreign group, but also threaten to rewrite the scenario for industry consolidation drawn up by NTT, the domestic giant.




Japan's telecoms industry, one of the most promising engines of growth for the troubled economy, has already seen a number of mergers and alliances. Any attempt by C&W to acquire a controlling stake in IDC is likely to face stiff resistance from NTT and force other operators to rethink.

The industry is fragmented, a legacy of the government's previous policy of separating local, long-distance and international operations. But as the industry globally has moved towards seamless services, the authorities have reversed their policy and Japan's many small operators have had to join forces to ensure survival.

The most pressing argument for consolidation among smaller operators is NTT itself, and its plans to enter the international telecoms market in July.

With Y9,450bn ($77.3bn) in consolidated revenues, NTT's sales dwarf those of its rivals (DDI, the second largest operator, has revenues of Y1,178bn). NTT alone accounts for 94 per cent of the aggregate market capitalisation of the Tokyo Stock Exchange's communications sector, according to Andrew Haskins, industry analyst at HSBC Securities in Tokyo.

NTT is being split into two regional companies and a separate company offering long-distance and international services. But with a virtual monopoly over the local network, and more than 50 per cent of the long-distance market, NTT is by far the closest to providing the seamless communications services the rest of the industry aspires to.

The most important missing link in NTT's strategy is an international network. IDC was seen as a convenient vehicle to fill that gap, and it was widely expected that it would eventually be acquired by NTT.

The two other largest shareholders in IDC, Toyota and Itochu, have little reason to reject an NTT offer to buy their stakes. Toyota, the second largest shareholder in KDD, the biggest international operator, has no incentive to hold on to a large stake in another international carrier, points out Shinji Moriyuki, at Daiwa Securities in Tokyo.

For its part, Itochu, which is reviewing its telecoms strategy, has close ties to NTT, notes Toshiaki Iba, telecoms analyst at Tokyo Mitsubishi Securities.

Although NTT has sought to downplay its interest in IDC, many analysts believe the company will fight tooth and nail to win the international operator.

"NTT has never carried an international call," says Toby Rodes, telecoms analyst at Dresdner Kleinwort Benson in Tokyo. IDC would give it a pre-packaged international operation, saving it time and (depending on the price) money.

Mr Rodes believes C&W is unlikely to be able to put up a fight with the much larger NTT. Moreover, a controlling stake in IDC is hardly what C&W needs, given its recent strategy of refocusing on core businesses. Rates in Japan's international call market have plummeted in recent years, due to competition, and many companies have become loss-making. (KDD reported its first operating loss in the first half of this year.)

Given C&W's recent record of bidding up its minority stakes, some analysts believe it may be bluffing. If so, it would be following a strategy that has served the company well; on average, C&W has obtained 50 per cent more for its minority stakes than initially expected, notes Jane Bidmead, at DKB in London.

No-one can be more aware of that than NTT. When the Japanese telecoms group decided to merge its loss-making personal handyphone (PHS) subsidiaries into NTT DoCoMo, its cellular phone subsidiary, C&W – which had a stake in some of the PHS operations – resisted. In the end, NTT is believed to have paid C&W a large sum for what should have been worthless paper.

# WEEK AHEAD

## DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey National Treasury 5¾% Gtd Nts 2001 $57.50
Do Gtd FRN 1999 $12.89
Cammell Laird 2p
Rockwell Int $0.255
Scottish Power 7.5p
Treasury 7¾% 2006 £3.875
Treasury 10% 2003 £5.0

■ **TOMORROW**
Anheuser-Busch $0.28
Asarco $0.05
Ellis & Everard 3.6p
Funding for Homes 10⅛% Db 2018 £5.0625
Mazda Motor 5.45% Bd 2000 Y545000.0
Do 5½% Bd 2001 Y550000.0
Safeland 0.5p
Tenneco $0.30

■ **WEDNESDAY MARCH 10**
Abbey National Treasury 6% Gtd Nts 1999 $60.0
AlliedSignal $0.17
Chevron $0.61
Exxon $0.41
General Motors $0.50
Halifax FRN 1999 $13.11
IBM $0.22
Lilly (Eli) 7⅜% Sb Bd 2004 £73.75
Mobil $0.57
Nat West Bank Var Rate Cap Nts 2009 £172.60
Portman Bldg Scty FRN 1999 £162.25
Safeway 8⅛% Bd 2000 £81.25
State Bank of New South Wales Sb FRN 2004 A$61.09
Texaco $0.45
Throgmorton Tst 1.5p
Treasury 5½% 2008/12 £2.75
United Technologies $0.36
Warner-Lambert $0.20

■ **THURSDAY MARCH 11**
Alliance & Leicester Gtd FRN 2002 £158.91
Athlone Extrusions IR1.57p
Lloyds Bank 7⅜% Sb Bd 2004 £73.75
Pfizer $0.22
Safeway 7½% Nts 2004 £75.0
Treasury Fltg Rate 1999 £1.5141

■ **FRIDAY MARCH 12**
Alldays 6p
Exeter Enhanced Inc Fd 2.1p
Skandia Cap 6¾% Gtd Nts 2002 $67.50
South African Breweries R2.80
State Bank of New South Wales 10¾% Bd 2002 A$107.50
Unidare IR13.3p
Victorian Public Auth Fin Agency 11% Gtd Bd 2002 A$110.0

■ **SATURDAY MARCH 13**
Hydro-Quebec 12¾% Ln 2015 £6.375

■ **SUNDAY MARCH 14**
SAS 9¼% Bd 1999 FFr925.0
Young & Co's Brewery 9½% Db 2018 £4.75

## UK COMPANIES

■ **TODAY**

BOARD MEETINGS:
Finals:
**Brands Hatch Leisure**
**Bunzl**
**CMG**
**Candover Invs**
**Gowrings**
**Graham**
**IMI**
**Inchcape**
**Nycomed Amersham**
**SGB**
**Scottish Media**
**Stat-Plus**
**Thompson Travel**
**Trafficmaster**
**Try**
**Vanguard Medica**
**WSP**
Interims:
**Groupe Chez Gerard**
**Interior Services**
**Interx**
**Manganese Bronze**

■ **TOMORROW**

COMPANY MEETING:
**Bullough**, The Courtyard, 26, Euston Centre, Euston Road, N.W., 10.00
BOARD MEETINGS:
Finals:
**BBA**
**Cantab Pharmaceuticals**
**Caradon**
**Church & Co**
**Coats Viyella**
**Country Gardens**
**CrestaCare**
**Expamet**
**Geo Interactive**
**Hampden Grp**
**Independent Insurance**
**Kerry**
**Metal Bulletin**
**Norish**
**Ramsden's (Harry)**
**Senior Eng**
**Waterford Wedgwood**
**Wilson Connolly**
Interim:
**Polypipe**

■ **WEDNESDAY MARCH 10**

BOARD MEETINGS:
Finals:
**Abbot**
**Aggregate Inds**
**BICC**
**Bowthorpe**
**Cairn Energy**
**Cordiant Comms**
**Countrywide Assured**
**Holmes Place**
**Mallett**
**Matalan**
**Mowlem (J)**
**PTS**
**Pearson**
**Pentland**
**Springwood**
**Terranova Foods**
**Xenova**
Interim:
**Rage Software**

■ **THURSDAY MARCH 11**

COMPANY MEETINGS:
**Cardiff Property**, 56, Station Road, Egham, Surrey, 12.00
**IMS**, Queens Hotel, City Square, Leeds, 3.00
**Mountcashel**, 17, Hanover Square, W., 2.00
**Tadpole Technology**, 5, Chancery Lane, Clifford's Inn, E.C., 11.00
BOARD MEETINGS:
Finals:
**Amec**
**Ash & Lacy**
**Cattles**
**Courtaulds Textiles**
**Cox Insurance**
**Davis Service**
**Emhart**
**Group Tst**
**ISA Int**
**Keller**
**Meggitt**
**Molins**
**Qualceram**
**Queen's Moat Houses**
**Reed Elsevier**
**Rexam**
**SIG**
**Saatchi & Saatchi**
**Tilbury Douglas**
**Travis Perkins**
**United Biscuits**
**Wyevale Garden Centres**
Interims:
**Diageo**
**Gleeson (MJ)**

■ **FRIDAY MARCH 12**

COMPANY MEETING:
**Lookers**, Stanneylands Hotel, Stanneylands Road, Wilmslow, Cheshire, 10.30
BOARD MEETINGS:
Finals:
**Alliance Res**
**Enterprise Oil**
**Johnson Service**
**Reckitt & Colman**
**Regal Hotel**
**Shire Pharmaceuticals**
**Vitec**
**Workplace Technologies**
Interims:
**Waterman Partnership**
**Wetherspoon (JD)**

*Company meetings are annual general meetings unless otherwise stated.*
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.



# CONFERENCES, VENUES AND COURSES

## CONFERENCES

**MARCH 18 & 19**
**FT European Pensions**
Distinguished speakers include: Professor Mario Monti, Member of the European Commission; Mr Kees van Rees, Managing Director Shell Pensions Fund, Chairman, European Federation of Retirement Provision; Mr Martin Jack, Director of IBM Retirement Funds, EMEA, IBM UK Ltd; Mr Bruce Garner, Head of Pensions, BP Amoco p.l.c. and Ms Ruth Goldman, Head of Pensions, Linklaters & Alliance.
Contact: Julie Crossan
FT Conferences
Tel: +44 171 873 3265
Fax: +44 171 873 3067
Email: julie.crossan@FT.com
BRUSSELS

Conferences, Venues & Courses

**April 16 - 18**
**WIN CORPORATE "BATTLES" WITH SUN TZU'S ART OF WAR SEMINAR**
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What has a 2,500 year-old military treatise to do with business today? The answer: Plenty. Fortune 500 talked about it. World leaders and business executives use it. Find out how and why with Mr Khoo Kheng-Hor, Asia's leading exponent and best selling author of the "Art of War".
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Email: geomancer@dragonmagic.com
Fax: +44 (0)1483 488 998
London

**April 20 - 21**
**Financial Analysts Seminar - Europe**
Considering the new risks and opportunities in European markets and the rapid pace of change in global investing, investment professionals in Europe need to be armed with the most current tools in their search for superior performance. This conference will address core investment topics from a regional and global perspective.
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Fax: 1-804-980-3634
Internet: www.aimr.org
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Madrid, Spain

Conferences, Venues & Courses

**APRIL 22 & 23**
**FT World Pharmaceuticals**
Distinguished speakers include: Mr Fred Hassan, Pharmacia & Upjohn; Mr Robert Ingram, GlaxoWellcome Plc; Dr Anthony H Wild, Warner-Lambert Company; Professor Dr Horst Meyer, Bayer AG; Mr Henry Wendt, Unit of Donaldson Lufkin Jenrette Merchant Banking; Mr Eli Hurvitz, Teva Pharmaceutical Industries Ltd; Mr Gilles Pajot, IMS HEALTH.
Contact: Julie Crossan
FT Conferences
Tel: +44 171 873 3263
Fax: +44 171 873 3067
e-mail: julie.crossan@FT.com
LONDON

**MAY 4 & 5**
**NIGERIA - Debt, Development and Democracy: Prospects and Challenges**
A two day conference following the Nigerian Presidential Elections to review the new political landscape and the framework for economic recovery. The conference will bring together a number of senior ministers, international financiers and key strategic players in Nigerian investment.
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FT Conferences
Tel: +44 171 873 3263
Fax: +44 171 873 3067
E-mail: julie.crossan@FT.com
LONDON

**May 14**
**London Motor**
Distinguished Speakers include: Mr John Simpson, Deputy Chairman and Chief Executive, The Mayflower Corporation plc; Mr John M Neill CBE, Group Chief Executive, Unipart Group of Companies; Mr Andrew Jackson, Deputy Chairman, BIMTA; Mr Robert N Edmiston, Chairman and Chief Executive, IM Group Ltd; Mr Graham Broome, Chief Executive, SMMT Industry Forum; Mr Gregory Melich, Vice President, Morgan Stanley & Co, International, Limited; Mr Michael Woodward, Director Automotive Practice, KPMG; Professor Garel Rhys OBE, Director for Centre for Automotive Industry Research, Cardiff Business School.
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London

**May 26 - 28**
**Fraud 4 - The 4th International Financial Fraud Convention**
The World's Leading International Convention on Financial Fraud and Financial Crime Prevention.
Sponsored by BankAmerica, PricewaterhouseCoopers and Stephenson Harwood.
Organisations to include: the UN, IMF, Council of Europe, BIS, OECD as well as Barclays, Chase, Citibank and Reuters among many others.
Delegates expected from over 60 nations, with proceedings in English, French and Spanish.
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Tel: (+44) 171 419 1000
Fax: (+44) 171 419 1050
E-mail: jamie@ifex.co.uk
Web site: www.financialfraud.com
IFex
QEII Conference Centre, London

**June 14 & 15**
**FT World Gold**
Distinguished speakers include: Mr David Clementi, Deputy Governor, Bank of England; Mr Jean-Pierre Roth, Vice Chairman of Governing Board, Swiss National Bank; Mr Randall Oliphant, Executive Vice President and Chief Financial Officer, Barrick Gold Corporation; Mr Chand Mehra, Director, Enchante Jewellery Limited; Mr Marcelo Kato, Head of Metal Department Manager, Metals Commodities Department, Sumitomo Corporation Europe plc; Mr George Milling-Stanley, Manager, Gold Market Analysis, World Gold Council; Mr Ted Reeve, Gold Analyst, Equity Research, Scotia Capital Markets; Mr Neil Newitt, Consultant, J Aron/Goldman Sachs.
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**SEPTEMBER 8 - 10**
**Privatisation in Africa**
Third annual Pan African summit entitled 'Privatisation in Practice' will provide a much needed platform for African leaders, ministers, private sector, international investors, financiers, academics and others to discuss, debate and offer practical solutions to the issues of privatisation in Africa. Limited sponsorship and speaker opportunities still available.
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Email. Conference@goldcity.co.za
ACCRA - GHANA

*To celebrate the transition of Administration in Macau and in the follow up to Macau's association to the International Monetary Fund's article IV consultation process and to the Bank of International Settlements.*

**Friday, 14th May**
**Key Note Addresses**

● *SUSTAINABILITY OF MONETARY AND EXCHANGE RATE POLICIES*

**Chaired by Vitor Pessoa** Secretary for Economic Co-ordination
**Dai Xianglong**-Governor People's Bank of China (expected)
**António de Sousa**-Governor Bank of Portugal & Governing Council, ECB
**Joseph Yam Chi-Kwong**-Chief Executive Hong Kong Monetary Authority
**Edward A. J. George**-Governor Bank of England
**Shigemitsu Sugisaki**-Deputy Managing Director International Monetary Fund

● *SOUNDNESS OF FINANCIAL SYSTEMS*

**Chaired by Maria Manuela Morgado** Chairwoman, Monetary and Foreign Exchange Authority of Macau
**Gabriel Singson**-Governor Bank of the Philippines
**M.R.Chatu Mongol Sonakul**-Governor Bank of Thailand
**Sakuya Fujiwara**-Deputy-Governor Bank of Japan
**Gunter D. Baer**-Secretary General Bank for International Settlements

● *CONCLUDING REMARKS*

**Maria Manuela Morgado**-Chairwoman Monetary and Foreign Exchange Authority of Macau

**Saturday, 15th May**
**Open Technical Sessions**

*For registration & inquires, please contact the conference secretariat:*
**Tel : (853) 353218**
**Fax : (853) 353042**
**e-mail: amcmconf@macau.ctm.net**
*Visit the Conference page at:*
**http://amcm.macau.gov.mo/conf/conf.htm**
**Registration fee: US $25**

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Date
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**CALL FOR PAPERS FOR OPEN TECHNICAL SESSIONS**

*Interested parties are invited to present a paper consistent with the topics of the conference, within the following schedule:*

31st March, 1999 – Abstracts of no more than 500 words.
8th April, 1999 – Notification of selected authors.
28th April, 1999 – Submission of Full paper.

Selected authors will be sponsored (accommodation and registration fees) to present their papers at the conference.

*Please send submission works to:*
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P.O. Box 3017 - MACAU

## COURSES

**MARCH 24 - 26 (REVISED DATE)**
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**APRIL 12 - JUNE 1**
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LONDON

**APRIL 14 - 16**
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# MARKETS WEEK

March 8 - March 14



## NEW YORK

**By John Authers**

An active week is likely on the New York securities markets after the sudden turnround that followed Friday's employment report. This showed wages were growing more slowly than expected, and caused most analysts to dismiss any chance of a tightening of monetary policy by the Federal Reserve this month.

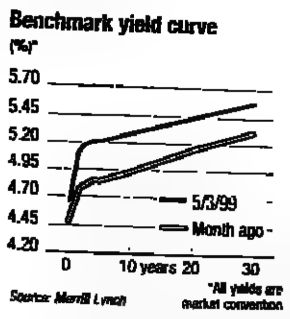
The Dow Jones Industrial Average rallied to an all-time high on Friday, closing at 9,736.08, and breaking out of the range in which it had traded for two months. It had started the week at only 9,306.58.

The yield on the 30-year Treasury bond, which had reached 5.69 per cent, also slipped back, to 5.603 per cent late on Friday.

Several economic announcements could have an impact this week, led by producer price inflation, another key measure of inflationary pressures, which are due on Friday. Analysts expect this to be broadly flat, with the core rate possibly rising by 0.1 per cent. If prices rise much faster than this, the more optimistic assumptions made at the end of last week could take a knock.

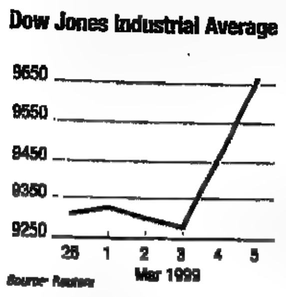
Retail sales, due on Thursday, and wholesale trade, due tomorrow, will also be closely monitored.

Benchmark yield curve (%*)




Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average




Source: Reuters

## LONDON

**By Philip Coggan, Markets Editor**

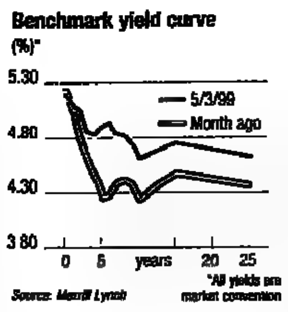
There is no doubt about the main event of the week as far as the UK markets are concerned – the Budget. With public spending plans mapped out for three years, all the interest will focus on the taxation side, where Gordon Brown, Chancellor of the Exchequer, has plenty of room for manoeuvre.

According to HSBC, the cumulative surplus on the public finances for the first 10 months of the current financial year has been £13.7bn, £10bn ahead of last year. That could allow Mr Brown to be very generous in terms of tax cuts.

But with an election possibly three years away, and future public finance projections heavily dependent on the avoidance of recession, Mr Brown is expected to opt for a neutral approach. A give-away Budget would be very badly received by the gilts market, where the yield on the benchmark 10 year issue has jumped by more than half a point in recent weeks.

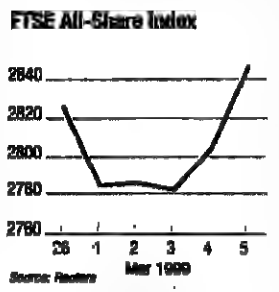
Investors will also be looking at the week's economic statistics, particularly today's industrial production and manufacturing output data for January, to see if the slight upturn in recent surveys is showing through.

Benchmark yield curve (%*)




Source: Merrill Lynch *All yields are market convention

FTSE All-Share Index




Source: Reuters

## FRANKFURT

**By Uta Harnischfeger**

The German stock market enters this week on an increasingly pessimistic note, after another week of heavy underperformance compared with other European bourses.

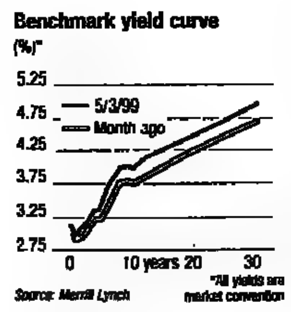
The Xetra Dax stock index of 30 top blue-chips fell 3 per cent last week, and to its lowest level this year on Thursday, when it hit 4,600. Although it recovered 2.5 per cent on Friday to close at 4,830, analysts warn that should not be taken as a sign for the coming week.

Instead, the government's planned tax reforms will continue to damp sentiment, as will continued reversals for Germany's 1999 growth prospects and signals from Wim Duisenberg, governor of the European Central Bank, that he is not ready to lower interest rates.

Earnings reports by consumer goods and chemical groups next week are unlikely to alter the picture radically, unless BASF or Bayer prove resilient against the downward trend in the chemicals industry, or Adidas or Puma defy a mixed consumer outlook.

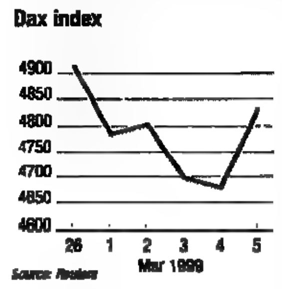
However, if corporate earnings are exceptionally positive and brighten the mood, the Xetra Dax index may test the 5000 mark, some analysts say.

Benchmark yield curve (%*)




Source: Merrill Lynch *All yields are market convention

Dax index




Source: Reuters

## TOKYO

**By Michiyo Nakamoto in Tokyo**

Activity in Tokyo is likely to be influenced by a number of factors as investor confidence, which appeared to return in full force on Friday, remains shaky in the face of an uncertain economic outlook.

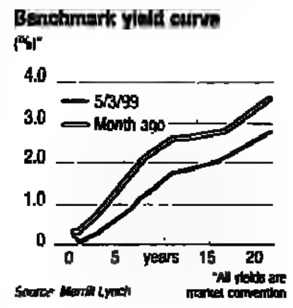
Corporate news will be one determining factor, with a range of announcements expected towards the financial year end. Profit warnings are expected to abound, depressing the general mood, but if there is further positive news, such as the tie-up between Sony and Toshiba, investors could be encouraged to take the widely-followed Nikkei average close to the benchmark 14,500 level.

Restructuring news is also likely to emerge, and could support buying if there is evidence that Japanese corporations are beginning to take serious action that could lead to their revival.

Equally important is the direction of the yen. With most domestically oriented industries suffering from weak markets, exporters have provided the best hope for keeping the floor from falling under the Japanese economy, if not sustaining an economic recovery.

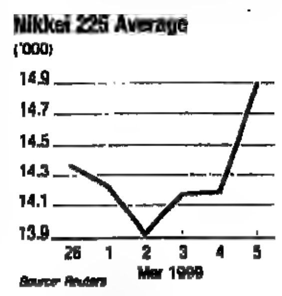
All eyes will be on the Bank of Japan, whose monetary policy will have a large impact on the yen.

Benchmark yield curve (%*)




Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average ('000)




Source: Reuters

## COMPANIES DIARY

EDITED BY MARTIN BRICE

# Clearer picture of performance emerges

The March reporting season has reached the critical point where investors have a clearer picture of how companies are likely to perform in coming months, following the round of year-end updates on trading to analysts and a raft of results. The result so far seems to be a slowing of growth expectations across the market. Figures collated by organisations such as IBES and First Call, the estimates services, show analysts now expect corporate earnings in the UK to grow by about 10.5 per cent in the next 12 months. Figures from IBES show that just three months ago, expected UK growth for the coming 12 months was 15 per cent.

### TODAY

● British Vita is expected by BT Alex Brown to produce another year of solid progress, partly because it benefits from the strength of sterling and the consequent fall in cost of its D-Mark denominated raw materials. The company has indicated that tougher times in the UK were being offset by advances in continental Europe. A consensus of forecasts from First Call, the estimates service, suggest a rise of about 12 per cent to £72.5m ($118m) pre-tax for the full year.

● The extremely high rating enjoyed by shares in CMG is expected to be justified when the information technology services company produces a 50 per cent rise in pre-tax profits. Shares in the Anglo-Dutch software and services group stand at some 80 times this year's forecast earnings. Its full-year pre-tax profit is forecast by IBES to advance by 44 per cent to £55m ($88m).

● IMI shares have underperformed the market by about 50 per cent in the past 10 months and these figures are not expected to reverse that. Exposure to European industry may hurt the company, as trading in the fourth quarter seems to have deteriorated. A rise in pre-tax profit of about 4.3 per cent to £153m ($244m) is expected when the engineer reports final figures.

### TUESDAY

● A key factor for analysts when British American Tobacco reports final figures is the performance of emerging markets, particularly India where it had been enjoying sales growth. Total operating profits are expected by BT Alex Brown to show an advance of just 2 per cent, to £1.62bn ($2.6bn).

● The first set of full-year results from Nycomed Amersham is likely to give a clear picture of the underlying businesses and so should remove much of the volatility from the share price. One issue that has affected other companies is exposure to Russia, where its pharmaceutical division achieved some 10 per cent of its sales. Overall, operating profit is expected to have risen by about 12 per cent to £255m ($408m).

● BASF, the German chemicals group, is expected to report full-year operating profit of about DM5.1bn ($2.9bn) compared with DM5.34bn a year earlier, following its supervisory board meeting on Tuesday, according to analysts.

### WEDNESDAY

● When Countrywide Assured, the life assurance company with an estate agency side, reports full-year figures, analysts will be keen to hear any comments on the state of the UK housing market, although the strength of profitability of its burgeoning life assurance business will also be of great interest. Any fall in profits from the estate agency side is expected to be made up by strength in the life business, and a static result at about £53m ($83m) is expected.

● Cathay Pacific, the Hong Kong-based airline, is expected to report a 1998 net loss of between HK$285m and HK$745m ($37m and $97m) compared with a net profit of HK$1.69bn a year earlier, analysts said. Passenger volumes are known to have improved during the second half of last year and investors' prime concern will be the degree to which yields may have suffered to achieve this. *AFX-Asia, Hong Kong*

### THURSDAY

● Vivendi, the French utilities and communications group, will report 1998 net profit of between FFr6.04bn and FFr6.42bn ($1.4bn), compared with FFr5.4bn the year earlier, boosted by sales of mobile phones and the consolidation of new assets, according to analysts. The figures are expected to be lifted by new consolidations, notably of publishing company Havas, acquired last March, and of a 27.6 per cent stake in FCC, the Spanish construction and utilities company, purchased in October. *AFX-News, Paris*

● The January trading update from Albright & Wilson should mean that final figures will hold no surprises, while the announcement in January that it had received a number of bid approaches will overshadow the actual figures. First Call suggests a 20 per cent underlying fall to £48m ($78m).

● Final figures from SIG, Europe's largest distributor of insulation and related products, are expected to be static at about £34.3m ($55m). One issue for investors will be the performance of operations in east Germany, where a deep recession in construction activity has been exacerbated by the removal of taxbreaks for post-reunification building projects.

● The profits warning from Reed International at the end of last year prompted a range of downgrades and means this set of final figures is unlikely to come as a surprise. First Call suggests the company will make about £413m ($660m) pre-tax, about the same as last year.

### FRIDAY

● Reckitt & Colman issued a profits warning in November and said in January that its chief executive was to leave, so the company may take the opportunity presented by the release of these full-year results to reassure investors.

First Call suggests it will report £271m ($433m) pre-tax, which would be fall from the £302m last year. Issues of interest are likely to include the state of markets in Latin America, sales in the US and pressure on margins in Europe.

● UBS, the Swiss bank, is expected to report net profits of SFr3.04bn-SFr3.39bn ($2.34bn), with earnings per share in the range of SFr14.2-SFr15.9 and a dividend of SFr10-SFr11 a registered share, analysts said. Of particular interest will be news about any remaining costs from the December 1997 merger with Swiss Bank Corp. UBS' exposure to emerging markets and its performance in investment banking business, they said. *AFX News, Zurich*

## NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| US DOLLARS | | | | | | | |
| KfW International Finance | 1.5bn | Mar 2004 | 5.875 | 99.256R | 5.801 | +45(4¼%Feb04) | DrKB/MSDW/Warburg |
| NTT | 500 | Mar 2004 | 6.00 | 99.609R | 6.093 | +75(4¾%Feb04) | Merrill/Warburg |
| Republic of Colombia(h) | 500 | Mar 2004 | 10⅞# | 97.354R | 11.59 | +630(Feb04) | JP Morgan Securities |
| Cygnus Funding Corp(m)‡ | 280 | Mar 2004 | (m1) | 99.90 | - | - | Goldman Sachs Intl |
| World Bank(n) | 150 | Mar 2004 | 6.00 | 100.00R | - | - | ABN Amro |
| World Bank(o) | 50 | Mar 2009 | (o1) | 98.875R | - | - | Morgan Stanley DW |
| Fannie Mae(r) | 3bn | Mar 2002 | 5.375# | 99.751R | 5.465 | +34(6%Feb01) | Goldman/JPM/MSDW |
| World Bank(y) | 250 | Mar 2004 | 6.15# | 100.00 | - | - | Bear Stearns Intl |
| PAT, Series 1999-1(D) | 1.359bn | - | - | - | - | - | Merrill Lynch |
| Puma Finance(E)‡ | 800 | - | - | - | - | - | Deutsche Bank |
| MCCMT, 1999-A, Cla A(F)‡ | 400 | Feb 2004 | (F1) | 100.00 | - | - | Bear Stearns Intl |
| World Bank(S) | 250 | Mar 2004 | 6.15# | 100.0525 | - | - | Merrill Lynch Intl |
| Discover 1999-2(K) | 526.316 | - | - | - | - | - | Morgan Stanley DW |
| SMS SLT, 1999-A(L)★‡ | 608 | - | - | - | - | - | CSFB |
| MLMI, Series 1999-H1(M) | 292.623 | - | - | - | - | - | Merrill Lynch |
| UBS, Jersey Branch(N) | 50 | Mar 2000 | 15.25# | 100.00 | - | - | Warburg Dillon Read |
| STERLING | | | | | | | |
| South Somerset Homes | 67 | Mar 2034 | 5.955# | 100.00R | 5.955 | +130(8%-21) | Paribas |
| Alliance & Leicester‡ | 150 | Mar 2004 | (A) | 99.90 | - | - | HSBC Markets |
| Abbey Natl Trsy Services(S) | 50 | Dec 2009 | 5.375 | 101.35 | - | - | RBC DS Global Markets |
| SWISS FRANCS | | | | | | | |
| Principal Fin Global Fndg(B) | 250 | Apr 2004 | 2.25 | 100.60 | - | - | CSFB |
| Eurohypo(C) | 200 | Dec 2006 | 2.75 | 102.15 | - | - | CSFB/Deutsche Bank |
| AUSTRALIAN DOLLARS | | | | | | | |
| BNG | 100 | Mar 2004 | 5.50 | 100.895 | - | - | TD Securities |
| NORWEGIAN KRONER | | | | | | | |
| Swedish Export Credit | 580 | Mar 2004 | 5.25 | 100.875 | - | - | Unibank |
| GREEK DRACHMA | | | | | | | |
| European Inv'ment Bank(T) | 10bn | Feb 2002 | 6.00 | 99.3375R | 6.251 | - | RBC DS Global Markets |
| EUROS(e) | | | | | | | |
| Colt Telecom plc(a)§ | 295 | Mar 2006 | 2.00 | 100.00 | - | - | Morgan Stanley DW |
| Suez Lyonnais des Eaux(b)§ | 786.7 | Jan 2004 | zero | 180.00 | - | - | Morgan Stanley DW |
| MPS, London Branch(c) | 375 | Mar 2009 | 5.00 | 98.45R | 5.203 | +115(Jan09) | Bear Stearns/Warburg |
| Eve NV(d)‡ | 324 | Mar 2026 | (d1) | 99.95 | - | - | CIBC |
| Akademiska Hus | 250 | Mar 2009 | 4.50 | 99.945R | 4.506 | +46(3¾Jan09) | JP Morgan Securities |
| Deutsche Finance Netlds(g)‡ | 250 | Feb 2004 | (g1) | 99.79R | - | - | Deutsche Bank |
| GECC(h,i) | 175 | Feb 2001 | 3.00 | 99.577R | 3.231 | +10(7%Oct00) | Paribas |
| Anglo-Irish Capital Fndg(j) | 75 | undated | 7.75(j) | 100.00 | - | - | Merrill Lynch Intl |
| Reseau Ferre de France(l) | 1bn | Mar 2014 | 4.625 | 98.775R | 4.741 | +33(l) | ABN Amro/Paribas |
| Carrefour(l) | 1bn | Mar 2009 | 4.50 | 99.133R | 4.610 | -41(l) | BNP/Barclays Capital |
| HypoVereins Finance | 500 | Mar 2003 | 3.50(l) | 99.21R | 3.716 | +23(4½Feb03) | HypoVereinsbank |
| Accor SA(p-l) | 433.484 | Mar 2002 | 1.00 | 100.00 | - | - | Deutsche Bank |
| Rheinische Hypo(q) | 300 | Mar 2002 | (t) | 99.875R | - | - | Salomon Smith Barney |
| Deutsche Finance Nethlds | 250 | Jul 2006 | 4.25(u) | 97.105 | 4.829 | +50(3¾Jan09) | Deutsche Bank |
| Royal Bank of Canada(v) | 257 | Mar 2001 | (w) | 100.002R | - | - | Deutsche Bank |
| Tokyo Metropolitan Govt | 150 | Mar 2009 | 4.50 | 99.352R | 4.581 | +49(3¾Jan09) | BJ Intl/Paribas |
| World Bank(x) | 75 | Mar 2004 | 7.625 | 101.875 | - | - | ING Barings-BBL |
| Lloyds Bank plc | 500 | Mar 2011 | 4.75 | 98.214R | 4.951 | +65(3¾Jan09) | Goldman/Warburg DR |
| Hutchison Whampoa Fin | 500 | Mar 2006 | 5.50 | 99.389R | 5.608 | +170(6Jan06) | Deutsche/HSBC Mkts |
| Auto Community of Valencia | 500 | Mar 2009 | 4.25 | 100.787 | - | - | Deutsche Bank |
| Santander Investments‡ | 300 | Mar 2002 | (z) | 99.985R | - | - | Barclays/Salomon SB |
| BMW (UK) Finance plc | 200 | Dec 2004 | 3¼(a) | 99.59R | 3.86 | +23(7½Nov04) | HypoVB/Salomon SB |
| BT Aquitaine(f) | 1bn | Mar 2009 | 4.50 | 98.6[illegible] | [illegible] | [illegible] | [illegible] |
| North West Water Finance | 500 | Mar 2009 | 4.875 | 99.73R | 4.910 | +73(3¾Jan09) | ABN Amro/JP Morgan |
| Republic of the Philippines | 300 | Sep 2004 | 8.00(a) | 100.00R | 8.01 | +425(Jul04) | Deutsche/JPM/Warburg |
| City of Gothenburg‡ | 125 | Mar 2002 | (H) | 100.024R | - | - | ABN Amro |
| Commerzbank AG§ | 75 | Mar 2009 | (J)# | 99.50R | - | - | Caboto Holding |
| Republic of Slovenia | 400 | Mar 2009 | 4.875 | 99.165R | 4.983 | +86(3¾Jan09) | CSFB/Morgan Stanley |
| Inter-American Dev Bank | 100 | Mar 2004 | 3.60 | 99.955 | 3.610 | - | Caja Madrid |
| Republic of Argentina(U) | 100 | Mar 2004 | 9.50 | 99.50R | 9.627 | - | Deutsche Bank |
| Irish Permanent Treasury‡ | 100 | Mar 2004 | (P) | 99.965R | - | - | Deutsche Bank |
| Cassa(Q)‡ | 50 | Mar 2001 | (Q1) | 99.942R | - | - | BNP |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion price: £14.464. FX: 1.478 €/£. Redemption price: 117.907%. Callable after 3 yrs at accreted value. Greenshoe: 15%. b) Each €144 bond exchangeable into 1 Axa share. Redemption price: 109.83%. 50% callable from 31/12/01 and balance from 02 at accreted [illegible] warrant; 3 wrts entitle holder to €1,000 bond with identical terms. d) Secured on Belgian residential mortgages. 10% cleanup call. Av life: 4.6 yrs. d1) 3-mth Libor +22bp. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. g) Fungible with €750m. Plus 7 days accrued. g1) 3-mth Euribor +6¼bp. h) Fungible with €350m. Plus 35 days accrued. i) Over interpolated yield. j) €65m preference share issue launched on 24/2/99 was increased to €160m. Callable on coupon dates from 24/3/04 at par. k) Exchangeable in 1 yr into new bond paying 11.25% due 9/3/2028. l) Long 1st coupon. m) Amortises from May 99: average life 2 yrs. m1) 1-mth Libor +70bp. n) Callable on 24/3/00 at par. o) $100m launched on 17/2/99 was increased to $150m. Callable annually from 12/3/00 at par. o1) 7¼% in yr 1, then 6%. p) Oeffentliche Pfandbriefe. q) Quarterly coupons. s) Short 1st coupon. t) 3-mth Euribor flat. u) Exchangeable into Compass Group plc shares at €14.12. v) Fungible with €2bn. Plus 40 days accrued. w) 3-mth Euribor flat. x) Redemption linked to any fall in Dow Jones Stoxx 50 index. y) Callable on coupon dates from 16/3/00 at par. z) 3-mth Euribor +5bp. A) 3-mth Libor +6¼bp. B) Secured on funding agreement with Principal Life Insurance Co. C) Hypotheken Pfandbrief. D) Premier Auto Trust. 5-tranche asset backed. E) 4-tranche deal secured on Australian residential mortgages. F) MBNA Credit Card Master Trust. Legal maturity: 17/7/06. Av life: 4.9 yrs. F1) 1-mth Libor +14bp. F2) Class B of $37½m was privately placed. G) Callable on coupon dates from 16/3/00 at par. H) 3-mth Euribor -5bp. J) 0.8 x 10-yr swap rate; min 3%. K) 2-tranche asset backed. L) Student Loan Trust. 4-tranche asset backed. M) Merrill Lynch Mortgage Investors. 9-tranche asset backed. N) Redeemed at par or Compaq shares at $32.3. P) 3-mth Euribor +12½bp. Q) €350m launched on 16/2/99 was increased to €400m. Q1) Eonia +30bp. S) Fungible with £250m. Plus 79 days accrued. T) Fungible with Dr30bn, plus 48 days accrued. U) Fungible with €300m. Plus 15 days accrued. Note: Yields are calculated on ISMA basis.

# LONDON MARKET DATA

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1998/99 High | 1998/99 Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 10 | Nil | 18/3 | 1½pm | 1¼pm | Bioccole | 1½pm | |
| 15 | Nil | 25/3 | 3pm | 2pm | Oxford Biomedica | 3pm | +1 |
| 78 | Nil | 10/3 | 25pm | 10pm | Peptide Therapeutics | 15½pm | –1 |

pm premium.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1998/9 High | 1998/9 Low | Stock | Close price p | +/- | Net div | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| – | F.P. | 15.0 | 100 | 90 | Close Bros Dev VCT | 100 | | – | – | – | – |
| – | F.P | 60.3 | 103¾ | 99¾ | Enhanced Zero Tst | 100½ | | – | – | – | – |
| – | F.P. | 38.2 | 7½ | 7 | Gander Properties | 7¼ | | – | – | – | – |
| § | F.P. | 47.2 | 100¾ | 94¾ | Jupiter Enhanced | 99 | | – | – | – | – |
| § | F.P | 48.0 | 110 | 105¾ | De Zoete Div Pfl | 108¼ | +¼ | – | – | – | – |
| – | F.P. | – | 360 | 255 | Luminar Warrants | 290 | –30 | – | – | – | – |
| – | F.P. | 5.90 | 110½ | 107½ | †MBA Quantum | 110 | | W– | – | – | 11.2 |
| – | F.P. | – | 472 | 433 | Sth African Brew | 465 | +9 | – | – | – | – |
| – | F.P. | – | 142½ | 132 | Syster | 134 | –8 | – | – | – | 33.0 |

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

## FTSE GOLD MINES INDEX

| | Mar 5 | % chg since 31/12/98 | Mkt Cap $bn | % of Gold Mines | Gross div yld % | Total return | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (29) | 913.78 | –2.2 | 30.25 | 100.00 | 2.00 | 920.98 | 1351.57 | 701.58 |
| ■ Regional Indices | | | | | | | | |
| Africa (9) | 1031.61 | 4.0 | 8.44 | 27.91 | 4.00 | 1048.22 | 1488.04 | 765.63 |
| Australasia (9) | 1104.72 | –5.3 | 4.33 | 14.30 | 2.73 | 1117.55 | 1600.53 | 815.93 |
| Americas (11) | 844.50 | –4.2 | 17.48 | 57.79 | 0.86 | 847.43 | 1317.41 | 647.69 |

Copyright, FTSE International Limited 1999. All rights reserved. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial.

## STOCK INDICES

| | Mar 5 | Mar 4 | Mar 3 | Mar 2 | Mar 1 | 1998/9 High | 1998/9 Low | Since comp. High | Since comp. Low |
|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 6305.5 | 6101.4 | 6048.3 | 6061.3 | 6060.9 | 6307.6 | 4648.7 | 6307.6 | 986.9 |
| FTSE 250 | 5348.4 | 5314.8 | 5296.9 | 5277.3 | 5258.4 | 5966.6 | 4251.2 | 5966.6 | 1379.4 |
| FTSE 250 ex IT | 5384.6 | 5354.7 | 5324.1 | 5311.1 | 5290.1 | 6030.0 | 4295.8 | 6030.0 | 1378.3 |
| FTSE 350 | 2944.3 | 2899.7 | 2878.0 | 2880.4 | 2878.6 | 2974.4 | 2233.5 | 3548.4 | 664.5 |
| FTSE SmallCap | 2304.37 | 2289.43 | 2282.48 | 2276.34 | 2270.58 | 2868.69 | 1834.49 | 2868.69 | 1363.79 |
| FTSE SmallCap ex IT | 2272.84 | 2261.63 | 2253.02 | 2246.59 | 2248.25 | 5554.10 | 1815.83 | 5554.10 | 1363.78 |
| FTSE All-Share | 2846.04 | 2804.10 | 2781.89 | 2785.55 | 2784.06 | 2885.17 | 2166.07 | 2885.17 | 61.92 |
| FTSE Fledgling | 1259.08 | 1250.75 | 1248.95 | 1247.87 | 1248.44 | 1517.11 | 1046.17 | 1617.11 | 31.14 |
| FTSE Eurotop 100 | 2858.46 | 2793.59 | 2758.09 | 2775.65 | 2770.53 | 3088.91 | 2049.91 | 3088.91 | 2044.47 |
| FTSE Eurotop 300 | 1241.28 | 1214.56 | 1201.29 | 1209.25 | 1207.88 | 1327.88 | 893.55 | 1327.88 | 874.08 |
| FT 30 | 3767.8 | 3742.3 | 3728.3 | 3714.3 | 3704.3 | 3984.0 | 2806.8 | 3984.0 | 49.4 |
| FT Govt Securities | 113.18 | 112.01 | 112.25 | 112.97 | 112.90 | 117.17 | 93.31 | 141.84 | 49.18 |
| FT Fixed Interest | 154.27 | 153.27 | 153.78 | 154.31 | 154.45 | 158.69 | 175.32 | 158.69 | 50.53 |
| FTSE Gold Mines | 913.78 | 904.33 | 888.95 | 881.40 | 873.87 | 1351.57 | 701.58 | 2074.81 | 701.58 |

# CURRENCIES & MONEY

## Budget dominates

There is no doubt which event will occupy the minds of sterling traders over the week ahead. The UK Budget will be presented to parliament on Tuesday towards the end of the London trading session, and could give important clues to the direction of UK interest rates.

The spending side of the Budget is not in question, since the Government has committed itself in advance to nominal expenditure control totals. But the market has speculated that there may be considerable tax cuts, given the healthy state of the public finances at the moment.

Gordon Brown, the chancellor of the Exchequer, has long hankered after a 10 per cent starting rate of tax as part of the government's attempts to increase work incentives. Although there may also be reductions in tax reliefs, such as the extra tax allowance for married couples, any shift of policy stance in the Budget is likely to be towards fiscal loosening.

Rumours spread last week that the Bank of England's MPC had advance notice of the broad stance of the Budget, which may have been one of the motives behind the decision to keep interest rates on hold.

An expansionary Budget could add to the losses suffered by short sterling contracts after last week's MPC decision, and push up the value of the pound.

The other key piece of information the market can look forward to next week is the US current account deficit data due on Thursday. Goods and services surprisingly showed a narrowing deficit in the fourth quarter, but these data will show whether their performance was undermined by a decline in the investment income account.

A rapid worsening of the overall balance of payments position is likely to lead to some sell-off in the dollar, as traders refocus on the possible collapse in the supply of funding for the US deficit.

## POUND SPOT FORWARD AGAINST THE POUND

[illegible]

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

## WORLD INTEREST RATES

### MONEY RATES

| Mar 5 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Euro-zone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | – | 3.00 | 3.00 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | – | 3.00 | 3.00 |
| Switzerland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | – | 1.00 | – |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | – | 1.00 | – |
| US | [illegible] | [illegible] | 5 | [illegible] | [illegible] | – | 4.50 | – |
| Euro Euribor | – | 3.109 | 3.104 | 3.092 | 3.130 | – | – | – |
| week ago | – | 3.120 | 3.098 | 3.065 | 3.071 | – | – | – |
| EONIA | 3.04 | – | – | – | – | – | – | – |
| week ago | 3.11 | – | – | – | – | – | – | – |
| EURONIA | 3.0410 | – | – | – | – | – | – | – |
| week ago | 3.1089 | – | – | – | – | – | – | – |

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Dw)

### INTERNATIONAL CURRENCY RATES

[illegible]

### THREE MONTH EURODOLLAR (CME) $1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | 94.82 | [illegible] | -0.07 | 94.82 | 94.81 | 96,958 | 478,503 |
| Sep | 94.83 | 94.71 | +0.08 | 94.78 | 94.81 | 98,799 | 471,211 |

### US TREASURY BILL FUTURES (CME) $1m per 100%

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mar | 95.53 | 95.50 | +0.02 | 95.83 | 95.49 | 113 | 1,704 |
| Jun | 95.54 | 95.51 | +0.01 | 95.[illegible] | 95.80 | 121 | 1,429 |

All Open Interest figs. are for previous day

### POUND IN NEW YORK

| Mar 5 | —Close— | —Prev. close— |
|---|---|---|
| £ spot | 1.6065 | 1.6105 |
| 1 mth | 1.6057 | 1.6097 |
| 3 mth | 1.6049 | 1.6090 |
| 1 yr | 1.6088 | 1.6110 |

**FT GUIDE to WORLD CURRENCIES**

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

### OTHER CURRENCIES

| Mar 5 | £ | $ |
|---|---|---|
| Czech Rp | 55.4936 - 55.5460 | 34.4830 - 34.5000 |
| Hungary | 375.369 - 375.655 | 233.250 - 233.450 |
| Iran | 4830.00 - 4827.90 | 3000.00 - 3000.00 |
| Kuwait | 0.4912 - 0.4915 | 0.3052 - 0.3053 |
| Peru | 5.4909 - 5.4962 | 3.4120 - 3.4150 |
| Poland | 6.3213 - 6.3402 | 3.9280 - 3.9380 |
| Russia | 37.8254 - 37.7225 | 23.3800 - 23.4300 |
| U.A.E. | 5.9108 - 5.9140 | 3.6726 - 3.6733 |

**BANK RETURN**

The Bank Return table can be found on page 27 in today's edition.

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

[illegible]

### D-MARK FUTURES (CME) DM 125,000 per DM

[illegible]

### SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

[illegible]

### JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

[illegible]

### STERLING FUTURES (CME) £62,500 per £

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mar | 1.6104 | 1.6060 | -0.0042 | 1.6108 | 1.6046 | 6,589 | 82,288 |
| Jun | 1.6080 | 1.6046 | -0.0042 | 1.6100 | 1.6024 | 2,502 | 9,760 |
| Sep | 1.6060 | 1.6042 | -0.0042 | 1.6090 | 1.6050 | 18 | 241 |

### PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

### PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

### BENCHMARK GOVERNMENT BONDS

[illegible]

## UK INTEREST RATES

### LONDON MONEY RATES

| Mar 5 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 7 - 5 | 5¾ - 5⅝ | 5⅝ - 5[illegible] | 5[illegible] - 5⅛ | 5⅛ - 5⅛ | 5[illegible] - 5⅛ |
| Sterling CDs | - | - | 5½ - 5⅜ | 5[illegible] - 5[illegible] | 5[illegible] - 5[illegible] | 5⅛ - 5⅛ |
| Treasury Bills | - | - | 5[illegible] - 6[illegible] | 5[illegible] - 5⅛ | - | - |
| Bank Bills | - | - | 5[illegible] - 5⅛ | 5⅛ - 5⅛ | - | - |
| Local authority deps. | 5¾ - 5¼ | 5¾ - 5¼ | 5[illegible] - 5[illegible] | 5⅛ - 5[illegible] | 5¼ - 5¼ | 5¼ - 5¾ |
| Discount Market deps | 5¾ - 5⅛ | 5¾ - 5⅛ | - | - | - | - |

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 4 | 5.5 | 5.5 | 5.25 | 5.25 |

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 5, 5.0429pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 26, 1999. Agreed rate for period Mar 24, 1999 to Apr 23, 1999, Scheme III 6.80pc. Reference rate for period Jan 30, 1999 to Feb 26, 1999, Schemes IV & V 6.580pc. Finance House Base Rate 6.0pc for Mar 1999.

### BANK OF ENGLAND TREASURY BILL TENDER

| | Mar 5 | Feb 26 | | Mar 5 | Feb 26 |
|---|---|---|---|---|---|
| Bills on offer | £200m | £200m | Top accepted rate | 5.0538% | 5.0739% |
| Total of applications | £1,285m | £1,185m | Ave. rate of discount | 5.0429% | 5.0458% |
| Total allocated | £200m | £200m | Average yield | 5.1071% | 5.1101% |
| Min. accepted bid | £98.740 | £98.735 | Offer at next tender | £200m | £200m |
| Allotment at min. level | 47% | 57% | Min. accept. bid 28 days | - | - |

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 5.50 | Exeter Trust Limited | 5.50 | Smith & Williamson | 5.50 |
| Allied Irish Bank (GB) | 5.50 | ●Robert Fleming & Co | 5.50 | Sun Bank | 5.50 |
| ●Henry Ansbacher | 5.50 | Habib Bank AG Zurich | 5.50 | TSB | 5.50 |
| Banco Bilbao Vizcaya | 5.50 | Heritable & Gen Inv Bk | 5.50 | United Bank of Kuwait | 5.50 |
| Bank of Cyprus | 5.50 | C. Hoare & Co | 5.50 | Unity Trust Bank Plc | 5.50 |
| Bank of Ireland | 5.50 | ●SG Hambros Bank & Trust | 5.50 | Whiteaway Laidlaw | 5.50 |
| Bank of India | 5.50 | Hongkong & Shanghai | 5.50 | Yorkshire Bank | 5.50 |
| Bank of Scotland | 5.50 | Investec Bank (UK) Ltd | 5.50 | | |
| Barclays Bank | 5.50 | Julian Hodge Bank | 5.50 | | |
| Brit Bk of Mid East | 5.50 | ●Leopold Joseph & Sons | 5.50 | | |
| ●Brown Shipley & Co Ltd | 5.50 | Lloyds Bank | 5.50 | | |
| Citibank NA | 5.50 | Midland Bank | 5.50 | | |
| Clydesdale Bank | 5.50 | NatWestminster | 5.50 | | |
| The Co-operative Bank | 5.50 | ●Rea Brothers | 5.50 | | |
| Coutts & Co | 5.50 | Royal Bk of Scotland | 5.50 | | |
| Cyprus Popular Bank | 5.50 | Scottish Widows Bank | 5.50 | | |
| Duncan Lawrie | 5.50 | ●Singer & Friedlander | 5.50 | | |

● Members of London Investment Banking Association

## UK GILTS PRICES

| Notes | Price £ | Wk % +/- | Amnt £m | Interest due | Last xd | City line |
|---|---|---|---|---|---|---|
| **Shorts (Lives up to Five Years)** | | | | | | |
| Treas Fltg Rate 1999 | 100.0000 | – | 5,700 | MrJeSeDe | 2.12 | 4945 |
| Exch 12¾pc 1999 | 102.3426 | -.1 | 3,050 | Se26 Mr26 | 17.9 | 1264 |
| Treas 10½pc 1999 | 101.0407 | -.1 | 1,252 | Nv19 My19 | 10.11 | 1288 |
| Treas 6pc 1999 | 100.4381 | – | 6,950 | Fe10 Au10 | 1.2 | 3635 |
| Conv 10¼pc 1999 | 103.6007 | -.1 | 1,798 | My22 Nv22 | 12.11 | 1242 |

[illegible]

# EURO PRICES

## EQUITIES

# Interest rate optimism may lift Europe

### EUROPEAN OVERVIEW

By Florian Gimbel

European stocks are expected to start the week on a positive note following Friday's rally in the US and European asset markets.

The unexpectedly small rise in US average hourly earnings in February has allayed fears of possible monetary tightening by the Federal Reserve. Subsiding concerns over higher US interest rates could, in turn, cause the euro to stabilise, increasing the likelihood of monetary loosening in the euro-zone.

But interest rate-related expectations are not the only factors that could drive this week's markets. Richard Davidson, at Morgan Stanley, pointed out that oil stocks could perform particularly well on the back of a continuous upward move in crude oil prices.

Yet more importantly, he expected a continuation of largely favourable company earnings figures. "Looking at 1998 earnings per share growth [EPS], we found that – on a pan-European basis – 42 per cent of the results were above expectations, with only 17 per cent coming in below," said Mr Davidson.

He has recently raised his EPS growth estimate for 1999 to 7 per cent, up from 5.5 per cent, largely on the expectation of lower euro-zone interest rates and a stronger dollar.

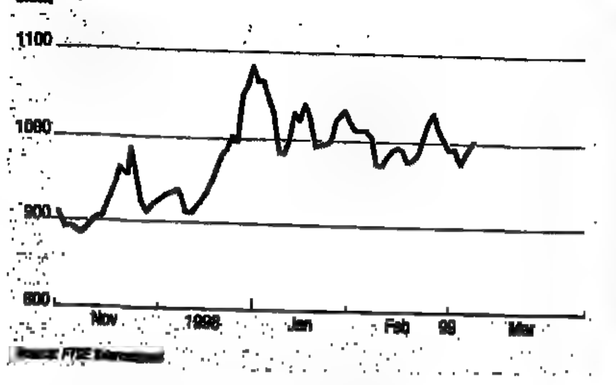
As for this week's economic figures, analysts highlighted the French consumer confidence data for February, released on Tuesday. In January, the figure reached an all-time high, but confidence is expected to have edged lower last month.

On a general note, the equity market for European smaller companies, particularly in Germany and France, could offer enormous growth potential, according to a recent survey by Reuters.

It showed that only 10 per cent of European small and medium enterprises (SMEs) were financed bu external equity, suggesting a potential 15,000 companies could be suitable for stock market listing. Reuters expected the overall size of the SME equity market to increase to $1,400bn by 2005, up from $503bn at present.

The FTSE Eurotop 300 index ended last week 26.72 higher at 1,241.28, while the FTSE Eurotop 100 increased 64.93 to 2,858.46. The FTSE Ebloc index of leading stocks in the euro-zone rose 27.18 to finish at 1,017.53.

FTSE Ebloc 100




Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 96.910 | 96.915 | - | 96.925 | 96.900 | 44211 | 144247 |
| Jun | 96.965 | 97.045 | +0.080 | 97.060 | 96.965 | 95083 | 161614 |
| Sep | 96.985 | 97.045 | +0.090 | 97.065 | 96.980 | 67575 | 115223 |
| Dec | 96.680 | 96.795 | +0.125 | 96.800 | 96.680 | 16684 | 88575 |

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 96.910 | 96.915 | - | 96.910 | 96.905 | 137 | 118592 |
| Jun | 97.050 | 97.045 | +0.080 | 97.050 | 97.040 | 273 | 107406 |
| Sep | 97.005 | 97.045 | +0.090 | 97.055 | 97.005 | 317 | 93800 |
| Dec | 96.720 | 96.795 | +0.125 | 96.750 | 96.720 | 590 | 66628 |

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

| Strike Price | CALLS Mar | Jun | Sep | Dec | PUTS Mar | Jun | Sep | Dec |
|---|---|---|---|---|---|---|---|---|
| 96875 | | | | | | | | |
| 97000 | 0.085 | 0.170 | 0.120 | 0.200 | 0.040 | 0.125 | 0.325 | 0.275 |
| 97125 | | | | | | | | |
| 97250 | 0.020 | 0.070 | 0.080 | 0.110 | 0.225 | 0.275 | 0.515 | 0.435 |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 279253 Puts 166155

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 2821.0 | 2860.0 | +57.0 | 2865.0 | 2820.0 | 104 | 7539 |
| Jun | 2820.0 | 2860.0 | +57.0 | 2820.0 | 2820.0 | 110 | 212 |

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

| | 2600 C | 2600 P | 2650 C | 2650 P | 2700 C | 2700 P | 2750 C | 2750 P | 2800 C | 2800 P | 2850 C | 2850 P | 2900 C | 2900 P | 2950 C | 2950 P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mar | 287 | 16 | 195 | 24 | 125 | 35 | [illegible] | 50 | 60 | 71 | 37 | 99 | 17 | 134 | 10 | 175 |
| Apr | 287 | 16 | 195 | 24 | 125 | 35 | [illegible] | 50 | 60 | 71 | 37 | 99 | 17 | 134 | 10 | 175 |

Est vol total2 . Prev day's open interest total: 8,792 . Premiums shown are based on settlement prices.

## OTHER INDICES

| | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DJ Stoxx 50 | 3527.35 | 3441.05 | 3398.27 | 3670.82 | 2433.07 | 3670.82 | 2433.07 |
| DJ Euro Stx 50 | 3536.84 | 3434.49 | 3393.95 | 3685.38 | 2419.23 | 3685.38 | 2419.23 |
| MSCI Europe | (u) | 1193.05 | 1182.80 | 1315.55 | 906.59 | [illegible] | 510.78 |

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

## FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 05

| National & Regional Markets | Euro Index | Day's % | change points | Yield gross % | xd adj ytd | Total retn (Euro) € |
|---|---|---|---|---|---|---|
| FTSE Eurotop 300 | 1241.28 | +2.20 | +26.72 | 2.16 | 2.41 | 1280.67 |
| FTSE Eurotop 100 | 2858.46 | +2.32 | [illegible] | 2.14 | 7.66 | 1027.48 |
| FTSE Ebloc 100 | 1017.53 | +2.74 | +27.18 | 1.98 | 0.74 | 1033.63 |
| FTSE EuroMid | 1203.58 | +1.12 | [illegible] | 2.77 | 1.50 | 1248.80 |
| FTSE EuroMid Ebloc | 1190.26 | [illegible] | +16.34 | 2.32 | 1.65 | 1217.11 |
| FTSE EuroMid Ex UK | 1229.89 | +1.32 | +16.07 | 2.17 | 1.14 | [illegible] |
| **FTSE Eurotop 300 Regions** | | | | | | |
| Eurobloc | 1269.55 | +2.61 | +32.31 | 1.95 | 1.18 | 1297.95 |
| UK | [illegible] | +1.98 | +23.37 | 2.55 | 5.09 | [illegible] |
| Europe Ex-Eurobloc | 1223.43 | +1.78 | +21.42 | 2.39 | 3.64 | 1271.09 |
| Europe Ex-UK | 1252.42 | +2.32 | +28.63 | 1.96 | 0.91 | 1285.99 |
| **FTSE Eurotop Industry Sectors** | | | | | | |
| RESOURCES | 921.69 | +3.37 | +30.03 | 3.16 | 2.81 | 967.02 |
| Mining | [illegible] | +2.58 | +22.40 | 4.05 | 0.00 | 908.85 |
| Oil & Gas | 888.31 | +3.40 | +29.22 | 3.12 | 2.82 | 912.95 |
| BASIC INDUSTRIES | 1071.53 | +1.54 | +16.25 | 2.79 | 1.96 | 1096.36 |
| Chemicals | 809.59 | +1.56 | +12.44 | 2.78 | 1.83 | 825.73 |
| Construction & Bld Matls | 1020.01 | +1.50 | +15.10 | 2.26 | 1.13 | 1038.20 |
| Forestry & Paper | 912.87 | +1.43 | +12.80 | 4.23 | 0.00 | 954.60 |
| GENERAL INDUSTRIALS | 1115.05 | +1.62 | +17.74 | 2.27 | 3.12 | 1141.99 |
| Aerospace & Defence | 818.88 | +4.79 | +37.45 | 2.09 | 0.00 | 830.19 |
| Diversified Industrials | 925.85 | +1.45 | +13.66 | 2.14 | 0.00 | 974.64 |
| Electronic & Elect Equip | 1003.96 | +1.62 | +15.99 | 1.92 | 5.15 | 1014.59 |
| Engineering & Machinery | 1025.35 | +1.37 | +13.81 | 2.92 | 4.18 | 1043.83 |
| CYCLICAL CONS GOODS | 1280.00 | +1.96 | +24.15 | 2.26 | 0.00 | 1294.68 |
| Automobiles | 929.24 | +2.08 | +18.90 | 2.27 | 0.00 | 937.86 |
| Household Goods & Texts | 1278.01 | +1.31 | +16.55 | 2.23 | 0.00 | 1286.90 |
| NON-CYC CONS GOODS | 1237.56 | +1.48 | +17.99 | 1.49 | 2.26 | 1274.06 |
| Beverages | 957.86 | -0.46 | -4.49 | 2.66 | 0.00 | 988.76 |
| Food Producers & Process | 904.00 | +1.72 | +15.61 | 1.71 | 0.41 | 945.40 |
| Health | 900.73 | +7.23 | +60.73 | 1.30 | 0.00 | 974.21 |
| Packaging | 764.79 | +1.11 | +8.39 | 1.16 | 0.00 | 765.71 |
| Personal Care & Hse Prods | 1100.86 | +3.85 | +38.01 | 0.89 | 0.00 | 1110.07 |
| Pharmaceuticals | 1129.35 | +1.40 | +15.64 | 1.17 | 3.25 | 1138.78 |
| Tobacco | 1431.63 | +0.31 | +4.49 | 3.48 | 1.42 | 1460.30 |
| CYCLICAL SERVICES | 1337.95 | +1.08 | +14.33 | 2.27 | 1.74 | 1378.98 |
| Distributors | 871.73 | -2.50 | -17.77 | 4.39 | 0.00 | 879.28 |
| General Retailers | 1105.73 | +2.53 | +27.34 | 2.90 | 1.27 | 1129.90 |
| Leisure Entertmt & Hotels | 981.71 | +0.00 | +0.01 | 2.03 | 8.02 | 1002.13 |
| Media & Photography | 1249.50 | +1.19 | +14.73 | 1.65 | 1.20 | 1264.06 |
| Rests, Pubs & Breweries | 871.05 | +0.49 | +4.24 | 3.39 | 0.71 | 900.51 |
| Support Services | 1082.99 | +0.45 | +4.81 | 1.19 | 7.19 | 1095.56 |
| Transport | 965.55 | -0.14 | -1.33 | 2.83 | 1.81 | 985.19 |
| NON-CYCLICAL SERVS | 1397.57 | +2.00 | +27.42 | 1.36 | 0.48 | 1438.89 |
| Food & Drug Retailers | 1023.00 | +1.35 | +12.44 | 2.06 | 0.51 | 1038.13 |
| Telecommunications Servs | 1399.00 | +2.10 | +28.61 | 1.24 | 0.43 | 1420.32 |
| UTILITIES | 1441.33 | +0.85 | +12.20 | 3.08 | 4.25 | 1632.99 |
| Electricity | 1090.95 | +0.67 | +7.24 | 3.21 | 3.42 | 1129.27 |
| Gas Distribution | 1201.60 | +1.78 | +20.73 | 1.62 | 1.00 | 1304.09 |
| Water | 865.50 | +0.20 | +1.86 | 5.29 | 5.94 | 1006.91 |
| FINANCIALS | 1307.75 | +3.05 | +38.66 | 2.67 | 3.45 | 1347.10 |
| Banks | 926.63 | +3.20 | +28.72 | 3.28 | 4.18 | 944.21 |
| Insurance | 976.08 | +2.70 | +25.69 | 1.41 | 0.00 | 987.86 |
| Life Assurance | 1159.70 | +3.21 | +36.11 | 1.71 | 0.00 | 1174.76 |
| Investment Companies | 990.95 | +1.64 | +15.95 | 1.80 | 0.00 | 1014.72 |
| Real Estate | 751.53 | +2.10 | +15.46 | 3.32 | 1.87 | 772.90 |
| Specialty & Other Fin | 917.93 | +3.51 | +31.16 | 2.44 | 0.00 | 933.25 |
| INFORMATION TECH | 960.35 | +2.87 | +26.83 | 0.65 | 0.04 | 982.88 |
| Information Tech Hardware | 1034.40 | +3.34 | +33.47 | 0.70 | 0.00 | 1039.86 |
| Software & Computer Serv | 790.53 | +1.45 | +11.32 | 0.46 | 0.15 | 792.23 |

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## CURRENCIES & MONEY

### EURO SPOT FORWARD AGAINST THE EURO

| Mar 5 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | |
| Czech Rep. | (Koruna) | 37.4250 | -0.0223 | [illegible] | 37.6100 | 37.2900 | 37.5817 | -5.0 | 37.8790 | [illegible] | 39.2197 | -4.8 |
| Denmark | (DKr) | 7.4304 | -0.0064 | [illegible] | [illegible] | 7.4250 | 7.4322 | -0.3 | 7.4364 | -0.3 | 7.4576 | -0.4 |
| Greece | (Dr) | 321.777 | -0.1580 | 640 - 914 | 322.030 | 320.789 | 323.6929 | -7.1 | 326.9837 | -6.5 | 340.4533 | -5.8 |
| Hungary | (Forint) | 253.196 | -1.5460 | 053 - 340 | 255.300 | 252.250 | 255.9094 | -12.8 | 261.0757 | -12.4 | 283.1873 | -11.8 |
| Norway | (NKr) | 8.5757 | -0.0288 | 713 - 801 | 8.5920 | 8.5705 | 8.6070 | -4.4 | 8.6606 | [illegible] | 8.8167 | -2.8 |
| Poland | (Zloty) | 4.2675 | -0.0327 | 615 - 735 | 4.2939 | 4.2462 | - | - | - | - | - | - |
| Romania | (Lei) | 14490.85 | -35.2600 | 172 - 998 | 14520.00 | 14460.00 | - | - | - | - | - | - |
| Russia | (Rouble) | 25.3956 | [illegible] | [illegible] | 25.4300 | 25.2525 | - | - | - | - | - | - |
| [illegible] | (Koruna) | 43.8881 | +0.3322 | 419 - 343 | 44.0103 | 42.3345 | - | - | - | - | - | - |
| Sweden | (SKr) | 8.9305 | -0.0283 | [illegible] | 8.9535 | 8.9225 | [illegible] | -0.1 | 8.9342 | -0.2 | 8.9520 | -0.2 |
| Switzerland | (SFr) | 1.5921 | +0.0020 | [illegible] | 1.6096 | 1.5800 | 1.5896 | 1.9 | [illegible] | 1.8 | 1.5681 | 1.5 |
| UK | (£) | 0.6741 | +0.0005 | 739 - 743 | 0.6748 | 0.6711 | 0.6755 | -2.5 | 0.6780 | -2.3 | 0.6889 | -2.2 |
| **Americas** | | | | | | | | | | | | |
| Argentina | (Peso) | 1.0847 | [illegible] | [illegible] | 1.0860 | 1.0782 | - | - | - | - | - | - |
| Brazil | (R$) | 2.1484 | -0.1312 | [illegible] | 2.2382 | 2.1366 | - | - | - | - | - | - |
| Canada | (C$) | [illegible] | -0.0076 | [illegible] | 1.6527 | [illegible] | 1.6471 | [illegible] | 1.6525 | -2.0 | 1.6797 | -2.1 |
| Mexico | (New Peso) | 10.7013 | -0.0595 | [illegible] | 10.7259 | 10.6381 | 10.9350 | -26.2 | 11.3817 | [illegible] | 13.4433 | [illegible] |
| USA | ($) | 1.0851 | +0.0022 | [illegible] | 1.0885 | 1.0797 | 1.0867 | -1.8 | 1.0902 | -1.9 | 1.1090 | [illegible] |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | |
| Australia | (A$) | 1.7269 | -0.0106 | [illegible] | 1.7460 | 1.7209 | 1.7293 | -1.7 | 1.7341 | -1.7 | 1.7602 | -1.9 |
| Hong Kong | (HK$) | 8.4074 | +0.0154 | [illegible] | 8.4090 | 8.3668 | 8.4243 | -2.4 | 8.4689 | [illegible] | 8.7811 | -4.4 |
| India | (Rs) | 46.1363 | +0.0885 | 245 - 481 | 46.2088 | 45.8609 | 46.4854 | -9.1 | 47.1757 | -9.0 | 50.6707 | -9.8 |
| Indonesia | (Rupiah) | 9640.67 | -7.98 | 221 - 913 | 9670.00 | 9532.90 | 9906.09 | [illegible] | 10509.54 | -36.1 | 12985.84 | [illegible] |
| Israel | (Shk) | 4.3753 | +0.0011 | 694 - 812 | 4.3915 | 4.3509 | - | - | - | - | - | - |
| Japan | (Y) | 132.868 | -0.9610 | [illegible] | 133.500 | 132.500 | 132.3276 | 3.1 | 131.6869 | 3.0 | 128.7950 | 2.9 |
| Malaysia | (M$) | 4.1232 | +0.0082 | [illegible] | 4.1285 | 4.0993 | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.0459 | -0.0078 | 443 - 475 | 2.0536 | 2.0366 | 2.0480 | -1.2 | 2.0527 | -1.3 | 2.0806 | -1.7 |
| Philippines | (Peso) | 42.4798 | +0.0301 | 111 - 484 | 42.6995 | 42.0693 | 42.8371 | -10.1 | 43.5105 | -9.7 | 46.6908 | -9.9 |
| Saudi Arabia | (SR) | 4.0695 | +0.0083 | [illegible] | 4.0752 | 4.0457 | [illegible] | [illegible] | [illegible] | [illegible] | 4.2533 | -4.5 |
| Singapore | (S$) | 1.8744 | -0.0052 | [illegible] | 1.8755 | 1.8677 | 1.8735 | 0.6 | 1.8706 | 0.8 | 1.8752 | 0.0 |
| South Africa | (R) | 6.7382 | -0.0137 | [illegible] | 6.7500 | 6.6809 | 6.8056 | -12.0 | 6.9342 | -11.6 | 7.4439 | -10.5 |
| South Korea | (Won) | 1347.36 | [illegible] | [illegible] | [illegible] | 1345.50 | - | - | - | - | - | - |
| Taiwan | (T$) | 36.0128 | +0.0676 | [illegible] | 36.0780 | 35.7910 | 36.2472 | -7.8 | 36.5706 | -6.2 | 37.7099 | -4.7 |
| Thailand | (Bt) | 40.6569 | -0.2768 | [illegible] | 40.8969 | 39.6914 | 40.9418 | [illegible] | [illegible] | -6.5 | 43.1604 | -6.2 |
| UAE | (Dirham) | 3.9855 | +0.0079 | 846 - 863 | 4.0250 | 3.9750 | 3.9927 | [illegible] | 4.0082 | -2.3 | [illegible] | -2.6 |

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

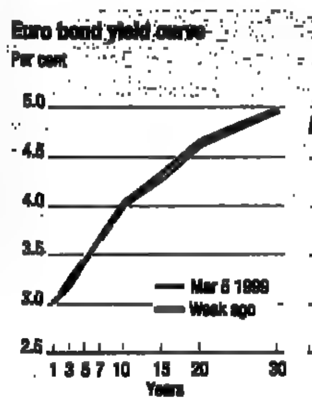
## BONDS

### INTEREST RATE SWAPS

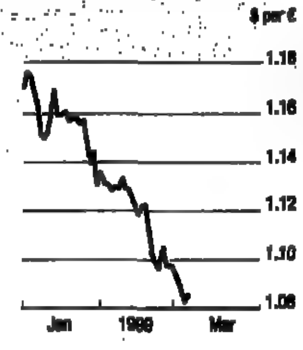
| Mar 05 | Euro-€ Bid | Euro-€ Ask | £ Stlg Bid | £ Stlg Ask | SwFr Bid | SwFr Ask | US $ Bid | US $ Ask | Yen Bid | Yen Ask |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 year | 3.11 | 3.14 | 5.42 | 5.45 | 1.82 | 1.89 | 5.36 | 5.39 | 0.20 | 0.23 |
| 2 year | 3.20 | 3.24 | 5.41 | 5.44 | 1.81 | 1.89 | 5.57 | 5.60 | 0.30 | 0.33 |
| 3 year | 3.35 | 3.39 | 5.43 | 5.47 | 2.04 | 2.12 | 5.68 | 5.71 | 0.52 | 0.55 |
| 4 year | 3.52 | 3.56 | 5.42 | 5.46 | 2.22 | 2.30 | 5.76 | 5.79 | 0.77 | 0.80 |
| 5 year | 3.69 | 3.73 | 5.38 | 5.42 | 2.40 | 2.48 | 5.82 | 5.86 | 1.03 | 1.06 |
| 6 year | 3.86 | 3.90 | 5.37 | 5.41 | 2.57 | 2.65 | 5.88 | 5.91 | 1.29 | 1.32 |
| 7 year | 4.01 | 4.05 | 5.35 | 5.39 | 2.74 | 2.82 | 5.92 | 5.96 | 1.51 | 1.54 |
| 8 year | 4.15 | 4.19 | 5.35 | 5.39 | 2.89 | 2.97 | 5.96 | 5.99 | 1.69 | 1.72 |
| 9 year | 4.27 | 4.31 | 5.35 | 5.39 | 3.04 | 3.12 | 6.00 | 6.03 | 1.84 | 1.87 |
| 10 year | 4.36 | 4.40 | 5.35 | 5.39 | 3.18 | 3.26 | 6.03 | 6.06 | 1.97 | 2.00 |
| 12 year | 4.51 | 4.55 | 5.36 | 5.40 | 3.41 | 3.51 | 6.10 | 6.13 | 2.18 | 2.22 |
| 15 year | 4.71 | 4.75 | 5.37 | 5.42 | 3.66 | 3.76 | 6.18 | 6.21 | 2.43 | 2.48 |
| 20 year | 4.92 | 4.96 | 5.38 | 5.43 | 3.91 | 4.01 | 6.24 | 6.27 | 2.61 | 2.66 |
| 25 year | 5.04 | 5.08 | 5.37 | 5.43 | 4.02 | 4.12 | 6.24 | 6.27 | 2.70 | 2.75 |
| 30 year | 5.11 | [illegible] | 5.38 | 5.43 | 4.11 | 4.21 | 6.24 | 6.27 | 2.73 | 2.79 |

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve




Euro against the dollar




Source: Interactive Data/FT Information

### EURO-ZONE BONDS

| Mar 05 | Red date | Coupon | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd v Govts |
|---|---|---|---|---|---|---|---|---|
| **■ SOVEREIGNS** | | | | | | | | |
| UK | 01/01 | 4.250 | AAA | 101.888 | 3.21 | -0.14 | +0.10 | +0.13 |
| Denmark | 01/02 | 4.750 | AA+ | 103.755 | 3.35 | -0.17 | +0.11 | +0.15 |
| Sweden | 02/01 | 5.000 | AA+ | 103.218 | 3.23 | -0.14 | +0.10 | +0.15 |
| Greece | 11/06 | 8.750 | BBB | 114.288 | 4.50 | -0.16 | +0.13 | +0.82 |
| **■ SUPRANATIONALS** | | | | | | | | |
| ADB | 10/07 | 5.800 | AAA | 107.478 | 4.43 | -0.17 | +0.18 | +0.63 |
| EIB | 04/08 | 5.000 | AAA | 106.089 | 4.18 | -0.16 | +0.17 | +0.26 |
| Eurofima | 12/08 | 5.625 | AAA | [illegible] | 4.80 | -0.17 | +0.20 | +0.58 |
| World Bank | 04/05 | 7.125 | AAA | 117.343 | 3.87 | -0.16 | +0.10 | +0.31 |
| **■ UTILITIES** | | | | | | | | |
| EDF | 10/03 | 3.750 | n/a | 101.181 | 3.47 | [illegible] | +0.09 | +0.17 |
| TEPCO | 02/03 | 4.750 | AA | 103.165 | 3.87 | -0.18 | +0.10 | +0.57 |
| Quebec Hydro | 03/08 | 5.375 | A+ | [illegible] | 4.72 | -0.17 | +0.17 | +0.80 |
| Norsk Hydro | 10/99 | 7.250 | A | 101.896 | 3.58 | -0.04 | +0.03 | +0.58 |
| **■ FINANCIALS** | | | | | | | | |
| Bad Wert | 02/10 | 5.375 | AAA | 107.202 | 4.52 | -0.20 | +0.19 | +0.44 |
| OKB | 09/07 | 5.750 | AAA | [illegible] | 4.23 | -0.10 | +0.14 | +0.43 |
| Credit Local | 04/08 | 6.250 | AA+ | 105.471 | 4.50 | -0.17 | +0.17 | +0.58 |
| Abbey Natl | 01/09 | 5.000 | [illegible] | [illegible] | 4.85 | -0.17 | +0.19 | +0.81 |
| **■ INDUSTRIALS** | | | | | | | | |
| Unilever | 10/01 | 5.125 | AAA | 104.145 | 3.41 | -0.16 | +0.04 | +0.39 |
| McDonalds | 03/08 | 5.125 | AA | [illegible] | 4.47 | -0.16 | +0.18 | +0.55 |
| Philip Morris | 06/08 | 5.625 | A | 104.273 | 5.09 | -0.17 | +0.21 | +1.11 |
| BAT Int Fin | 07/08 | 5.375 | A- | 102.012 | 4.94 | -0.16 | +0.01 | +1.26 |
| **■ PFANDBRIEFE** | | | | | | | | |
| [illegible] | 12/01 | 5.600 | n/a | [illegible] | 3.42 | -0.07 | +0.16 | +0.34 |
| Eurohypo AG | 01/04 | 5.000 | n/a | 105.352 | 3.77 | -0.06 | +0.29 | +0.34 |
| Bayer Vereins | 01/09 | 6.000 | n/a | [illegible] | 4.11 | -0.06 | +0.40 | +0.45 |
| Depfa | 07/08 | 4.750 | n/a | 102.405 | 4.43 | -0.04 | +0.42 | +0.51 |
| **■ HIGH YIELD** | | | | | | | | |
| Geberit | 04/07 | 10.125 | B+ | 114.000 | 6.56 | -2.28 | -1.76 | +2.75 |
| Colt Telecom | 11/07 | 8.875 | n/a | [illegible] | 7.74 | -0.23 | -0.46 | +3.94 |
| Impress Metal | 05/07 | 9.875 | B | 110.500 | 7.52 | -2.27 | -1.53 | +3.72 |
| Remy Cointreau | 07/03 | 10.000 | B+ | 87.500 | 10.54 | -0.30 | -0.69 | +6.66 |

Standard & Poor's ratings. Source: Interactive Data/FT Information.

## FTSE EUROTOP 300

| Name | Price (Euro) | Chge + or - | Mkt cap Euro(bn) | Vol (m) | Yld |
|---|---|---|---|---|---|
| **AEROSPACE & DEFENCE** | | | | | |
| **AUTOMOBILES** | | | | | |
| **BANKS** | | | | | |
| **BEVERAGES** | | | | | |
| **CHEMICALS** | | | | | |
| **CONSTRUCTION & BUILDING** | | | | | |
| **DISTRIBUTORS** | | | | | |
| **DIVERSIFIED INDUSTRIALS** | | | | | |
| **ELECTRICITY** | | | | | |
| **ELECTRONIC & ELECTRICAL EQUIPT** | | | | | |
| **ENGINEERING & MACHINERY** | | | | | |
| **FOOD & DRUG RETAILERS** | | | | | |
| **FOOD PRODUCERS & PROCESSORS** | | | | | |
| **FORESTRY & PAPER** | | | | | |
| **GAS DISTRIBUTION** | | | | | |
| **GENERAL RETAILERS** | | | | | |
| **HEALTH** | | | | | |
| **HOUSEHOLD & TEXTILES** | | | | | |
| **IT HARDWARE** | | | | | |
| **INSURANCE** | | | | | |
| **INVESTMENT COMPANIES** | | | | | |
| **LEISURE ENTERTAINMENT & HOTELS** | | | | | |
| **LIFE ASSURANCE** | | | | | |
| **MEDIA & PHOTOGRAPHY** | | | | | |
| **MINING** | | | | | |
| **OIL & GAS** | | | | | |
| **PACKAGING** | | | | | |
| **PERSONAL & HOUSEHOLD PRODUCTS** | | | | | |
| **PHARMACEUTICALS** | | | | | |
| **REAL ESTATE** | | | | | |
| **RESTAURANTS PUBS & BREWERIES** | | | | | |
| **SOFTWARE & COMPUTER SERVICES** | | | | | |
| **SPECIALITY & OTHER FINANCE** | | | | | |
| **SUPPORT SERVICES** | | | | | |
| **TELECOMMUNICATION SERVICES** | | | | | |
| **TOBACCO** | | | | | |
| **TRANSPORT** | | | | | |
| **WATER** | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Notes: Price data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in bold type are domiciled in Euro countries. Trading Volumes and yields derived from local domestic markets and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Mkt cap£m | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Allied Domecq | ♣ | 496 | 2.8 | Q25.33 | 1.5 | 5,190 | 2.11 | 2323 |
| Bulmer (HP) | | 285 | — | 15.0 | 1.5 | 151.0 | 11.1 | 2005 |
| Burn Stewart | | 11½ | -8.0 | – | – | 6.82 | 10'97 | 1518 |
| Diageo | ♣♣ | 723 | 4.9 | Q19.8 | 1.5 | 25,905 | 5.10 | 2781 |
| Glenmorangie A | † | 720 | — | 14.45 | 2.5 | 87.8 | 21.12 | 3257 |
| B | † | £27½ | — | 7.22 | 2.5 | 33.1 | 21.12 | 3258 |
| Highland | | 245 | -2 | 8.35 | 2.3 | 328.7 | 7.12 | 2890 |
| 5¾pc Cv Sb Bd | | 97¼ | 0.50 | 5¾% | – | 47.7 | 11.1 | 2823 |
| Kirin Y | | 701¼xd | -5.7 | Q24% | 1.7 | 7,317 | 25.12 | 1119 |
| Merrydown | | 26½ | -5.6 | – | – | 6.76 | 7.97 | 3352 |
| Seagram C$ | | £29½xd | 5.6 | Q66c | – | 18,226 | 22.2 | – |

## BANKS, RETAIL

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Mkt cap£m | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| ABN Amro Fl | | £12⅞ | -3.5 | Q25.4% | 2.2 | 17,506 | 21.8 | 1010 |
| ANZ A$ | | 409¼ | 1.3 | Q52c | ϕ | 6,285 | 12.11 | – |
| Abbey National | ♣♥ | 1343xd | 1.1 | 35.3 | 2.0 | 17,513 | 1.3 | 6411 |
| Alliance & Leicester | ♣♥ | 798 | -5.1 | 24.5 | 2.2 | 4,660 | 7.9 | 5808 |
| Allied Irish IE | ♣ | 1057xd | -2.6 | Q10%% | ϕ | 9,105 | 22.2 | 1354 |
| Anglo Irish IE | ♣† | 175½xd | -2.5 | Q21.3% | 3.4 | 495.2 | 25.1 | 1355 |
| Asahi Y | | 294¼ | -5.3 | Q12% | – | 6,019 | 26.3 | 3049 |
| [illegible] | | [illegible] | [illegible] | [illegible] | 2.0 | 6,071 | 11.7 | – |
| Banco Santander Pta | † | £12⅞ | 0.10 | Q8¾% | 1.9 | 14,270 | 31.7 | – |
| Bank Ireland IE | † | 1228 | -5.3 | Q3.4% | 3.0 | 6,290 | 26.5 | 1360 |
| Bank Scotland | ♣† | 889 | -3 | 10.4 | 3.8 | 11,128 | 12.10 | 1742 |
| 9¼pc Ird Pf | | 178¼ | -3 | 9¼% | – | 510.8 | 2.11 | 1462 |
| 9⅜pc Ird Pf | | 173⅝ | -.1 | 9⅜% | – | 173.8 | 2.11 | 1685 |
| Bk of Tokyo Mitsubishi Y | | £7 | -6.8 | Q17% | ϕ | 32,763 | 26.3 | – |
| Barclays | ♣♥ | 1790xd | 7.4 | 43.0 | 2.1 | 27,029 | 22.2 | 1754 |
| Dai-Ichi Kangyo Y | | 234 | -1.4 | Q17% | – | 11,733 | 26.3 | – |

## BREWERIES, PUBS & REST

## BUILDING MATS. & MERCHANTS

## CHEMICALS

## CONSTRUCTION

## CONSTRUCTION - Continued

## DISTRIBUTORS

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

## ENGINEERING

## ENGINEERING - Continued



## ENGINEERING - Continued

## ENGINEERING, VEHICLES

## EXTRACTIVE INDUSTRIES

## FOOD PRODUCERS

## FOOD PRODUCERS - Continued

## GAS DISTRIBUTION

## HEALTH CARE

## HEALTH CARE - Continued

## HOUSEHOLD GOODS & TEXT

## INSURANCE

## INSURANCE - Continued

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Continued

## INV TRUSTS SPLIT CAPITAL

# LONDON SHARE SERVICE

## OTHER INVESTMENT TRUSTS

[illegible]

## INVESTMENT COMPANIES

[illegible]

## LEISURE & HOTELS

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## MEDIA - Continued

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]

## PROPERTY

[illegible]

## PROPERTY - Continued

[illegible]



## PROPERTY - Continued

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Continued

[illegible]

## SUPPORT SERVICES

[illegible]

## SUPPORT SERVICES - Continued

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## TRANSPORT - Continued

[illegible]

## WATER

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

[illegible]

## TRADED INDEX SECURITIES

[illegible]

## AIM

Alternative Investment Market

[illegible]

## AIM - Continued

[illegible]

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System (SETS).

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

## FT Share Service

The following changes have been made to the FT Share Information Service. Additions: Five Arrows Chile Cnv Uns Ln 2040 (OInv), Acorn Income Fund (InCo). Deletions: Ushers of Trowbridge (Drnk), Jackson (Cnst), Baring Power (Dev), Great Central Mines (Extn), New London (Ins), Fleming Japanese Warrants, NatWest Enterprise Trust (InTr), Cassell (Med), Helical Bar 5¼pc Cnv Prf (Prop), Abacus Recruitment SpSn.

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## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

### BERMUDA (REGULATED)(**)

Butterfield Funds

Credit Lyonnais House (Bermuda) Ltd

Frontington Investment Mgmt (Bermuda) Ltd

Integral Management International Ltd

McKinley Offshore Management Ltd

N.C.L. Investments Limited

Orbis Investment Management Ltd

Pictet Smith & Co

Starvest Investment Funds

### CAYMAN ISLANDS (REGULATED)(**)

Adelphi Europe Fund

Alleppo Capital Limited

Bank of America

Bank of Nova Scotia Trust Co (Cayman) Ltd

Beyond Partners Limited

Brunswick Capital Management (Cayman) Ltd

Butterfield Fund Managers (Cayman) Ltd

The China Fund

Coutts & Co Ag

Craig Drill Capital Ltd

Deutsche Bank A.G.

Discover Investment

Dragon Securities Ltd

Eagle & Dominion Euro-Asian Growth Fd Ltd

Emmerson Fund Management Ltd

Falcon Fund International Inc

Fairdale Capital Management Corporation

Fides Asset Management Ltd

Formosa Growth Fund Limited

Franklington Group Plc

Franck Asset Management

GA - Risk Management Limited

Global Fund Management S.A.

Goodman Asset Management

J O Hambro Capital Management

IBJ Schroder Bank & Trust Company

IBJ Schroder Overseas Fund II

InvEsc Asia Pacific Funds Limited

The International Investor

Kingston Offshore N.V.

Korea Intl Investment Fund

Korea International Investment Fund Ltd

LIBERAL FUND

Lehman Bros/GLG Partners Asset Mngmt

Lexco Alternative Fund Ltd

MFS Meridian Funds

MFS Meridian Funds - Contd.

Marshall Wace Asset Management Limited

Morgan Stanley Emerging Markets Fund Ltd

Morgan Stanley Offs Advisory Mortgage Fd Inc

National Investment Trust Co Ltd

North Atlantic Investment Co Ltd

Olympia Capital Management Ltd

Omega Overseas Partners Ltd

Orion Capital Advisors Ltd

The Osprey Group Of Funds

Pacific & General Investments Inc

Pakistan Fund

Perry Partners International Inc

Philippine Income Fund Inc

Pro Value AG

Prudential Securities Futures Mgmt, Inc

Putnam Offshore Funds

Renaissance Capital Asset Management Ltd

National Investment Limited

Royal Value Fund Ltd

SBI Global Management (Cayman) Inc

Secured Profits Fund Limited

Sierra Global Management PLC

Simon Robinson Investment Mgmt Ltd

Soditic Capital Ltd

Strome Offshore Limited

Strome Susskind Investment Management LP

Tokai Asia Ltd

Third Point Management Company LLC

Titan Capital Management

Vantage Investment Management Ltd

Voltaire Fund

Warrior Capital Management Ltd

### GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lazard Fund Managers (C.I.) Ltd

M & G (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Barclays Funds Mngmt (Guernsey) Ltd

### GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Absolute Alpha Inv Mgmt (Guernsey) Ltd

Apollo Investment Management Ltd

BFT Investment Services Limited

Barclays Global Investors Guernsey Ltd

Berwin Dolphin Global Funds

Butterfield Fund Managers (Guernsey) Ltd

CIBC Fund Managers (Guernsey) Ltd

Clariden Investment Mgt (Guernsey) Limited

Collins Stewart Asset Management Ltd

Commercial Union Captives Ins Mgmt

Concord Mkr (Guernsey) Ltd

Coutts (Channel Islands) Limited

Dartmouth Management (Guernsey) Ltd

Dresdner RCM Global Investors (Guernsey) Ltd

Global Fund Management Ltd

Hamilton Fund Managers (Guernsey) Ltd

Lombard Odier Hentsch International

Lexington Fund Administration Ltd

Landsbanki PCC (Guernsey) Limited

Long-Invest Capital Ltd

Merrill Lynch Investment Managers

NFM (Guernsey) Ltd

Paragon Asset Management Ltd

Port Fund Management

Rothschild Asset Management (C.I.)

Royal Bank of Canada Strategic Hedged Fund

Spread Asset Management Ltd

Standard Life Fund Managers (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Tudor Investment Mngmt (Guernsey) Ltd

UBS Asset Management (Guernsey) Ltd

U.S. Global Investors (Guernsey) Limited

UTI (Guernsey) Limited

### IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc (a)

Aberdeen Prolific Intl Fund Plc

BT Fund Managers (Ireland) Ltd (a)

Bank of Cyprus Group

Baring Intl Fd Mngrs (Ireland) Ltd

Castle Fund Management Limited

Dublin Europe Fund Mgmt Ireland Ltd

Dresdner RCM Global Investors Ltd

Edinburgh Intl Trust Managers (Ireland) Ltd

Fidelity International Fund Ltd

Royal Life International Fund

Henderson Crosthwaite Investment Co

Lazard Investment Funds Ltd

Lehman Brothers/GLG Partners Asset Mngmt

Olympia Fund Managers

Scottish Value Management

Gilts & Fidelity Investment Funds Ltd

The United Mutual Investment Company Plc

### IRELAND (REGULATED)(**)

AIB Fund Management Ltd

GT Global - Contd.

Global Asset Management (GAM)

AIG Asset Management Ltd

AIM Capital Funds Plc (c)

AIM Global Management Company Limited

AIMS Management Limited

AXA International Funds Plc

Abbey National Dublin Investment Fd Plc

Aberdeen Prolific Umbrella Cash Fund Plc

Acquisitions Investments Ltd

Aeon Small Cos Growth Fund

Aetna Growth Fund Plc

Asset Universal Ltd

Baltic Korean Smaller Companies Fund

Barclays Global Investors Ireland Ltd

BAS-EX Management SA

BCAT Asset Management

Bank of Ireland Gold Managers

Baring International Fd Mgrs (Ireland) Ltd

INVESTORS Fund Services (Ireland) Ltd

Baring Mutual (Ireland) Ltd

Brown Shipley Asset Mgt (Ireland) Ltd

Barr Eastern Fund Plc

Korea Active

Capita Fund Managers (Ireland) Ltd

CFM Global Fund Plc

Capital Ireland Ltd

Citibank Fund

Carmeros International Fund Plc

Close Montague Wide Funds Plc

Citizens Investment Trust Mgmt Company

City of London Investment Mgmt Co., Ltd

Dragon Korea Fund Plc

DS Voyager Fund Plc

Eagle Star Intl Life Assurance Co Ltd

Egerton Capital European Fund Plc

Emerging Markets Fund Plc

Fidelity Institutional Cash Fund Plc

Foreign & Colonial Emerging Markets Ltd

Formosa High Tech Fund

Franklin Templeton Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

Merrill Lynch Mercury Intl Liquidity Fds Plc

First Korea Fund

GE Financial Fund Management (Ireland) Ltd

GM Fund Management (Ireland) Ltd

GT Global

The Golden Gate Fund Plc

Goldman Sachs

Gordon House Asset Management Ltd

HSBC Asset Management

Hansa Ireland Ltd

Irish Life International Global Funds Plc

James World Funds

John Hancock Funds Plc

Korea Capital Growth Fund

Korea Open Fund

Korea Special Opportunities Fund Plc

Legal & General (Ireland) Ltd

Legg Mason

Lehman Bros/GLG Partners Asset Mgmt Ltd

Merrill Lynch Investment Managers

Morgan Grenfell Fund Management Ltd

Morgan Grenfell Profunds Plc

Old Mutual Fund Managers (Ireland) Ltd

Oppenheimer Alternative Funds Plc

Pacific Partners Umbrella Fund Plc

Parlbas Asset Management (Ireland) Ltd

Pioneer Management (Ireland) Ltd

Premier Protected Assets Fund Plc

Prudential Securities Futures Mgmt Inc

Putnam World Trust

RMB Global Fund

Rothschild Asset Management (Ireland) Ltd

J. Rothschild International Assce plc

SEI Global Master Fund - Institutional Class

SEI Global Master Fund - Investor Class

The Strategic Fund Plc

Salomon Brothers Asset Management

Schroder Investment Management (Ireland) Ltd

Scottish Amicable European/International

Scottish Mutual Intl Fund Managers Ltd

Shoreline Investment Mngt (Ireland) Ltd

Singer & Friedlander Global Funds Plc

Societe Generale Alternative Inv (Ireland) Ltd

State Street Global Advisors Limited

Super Phoenix Fund

The Tokai Umbrella Fund

Ulster Bank Investment Services

The Wessex Investment Company PLC

Yield Korea Fund

Yield Taiwan Fund

### ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Allied Dunbar Intl Fund Mgrs (IOM)

Bank of Bermuda

Irish Permanent Fund Managers (IOM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

### ISLE OF MAN (REGULATED)(**)

BOE International Asset Management (IoM) Ltd

Neville James Fund Managers Limited

Old Mutual Intl Fd Managers (Isle of Man) Ltd

### JERSEY (FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

AIB Govett (Channel Islands) Limited



ملكة امنا الأصل

Offshore Funds and Insurances

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## LUXEMBOURG (FSA RECOGNISED)

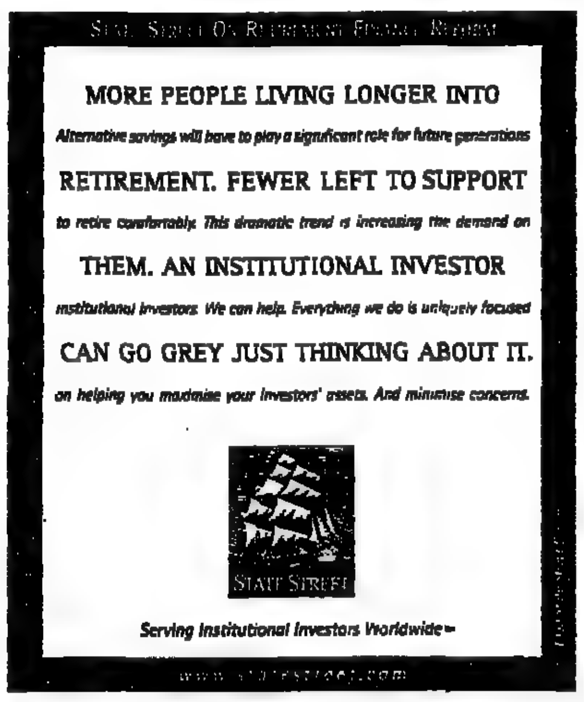
## JERSEY (REGULATED)(**)

## LUXEMBOURG (REGULATED)(**)

## OFFSHORE INSURANCES

# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds




OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE (EMU) Prices in €

AUSTRIA (Mar 5) 1 € = 13.76030 Sch

[illegible]

BELGIUM/LUX (Mar 5) 1 € = 40.33990 Frs.

[illegible]

FINLAND (Mar 5) 1 € = 5.94573 Mka

[illegible]

FRANCE (Mar 5) 1 € = 6.55957 Frs.

[illegible]

GERMANY (Mar 5) 1 € = 1.95583 Dm.

[illegible]

IRELAND (Mar 5) 1 € = 0.78756 Punt

[illegible]

ITALY (Mar 5) 1 € = 1936.27000 Lire

[illegible]

NETHERLANDS (Mar 5) 1 € = 2.20371 Fl.

[illegible]

PORTUGAL (Mar 5) 1 € = 200.48200 Esc.

[illegible]

SPAIN (Mar 5) 1 € = 166.38600 Pts.

[illegible]

## EUROPE (NON-EMU)

CZECH REP (Mar 5 / Koruna)

[illegible]

DENMARK (Mar 5 / Kr)

[illegible]

GREECE (Mar 5 - Drachma)

[illegible]

NORWAY (Mar 5 / Kroner)

[illegible]

POLAND (Mar 5 / Zloty)

[illegible]

SWEDEN (Mar 5 / Kronor)

[illegible]

SWITZERLAND (Mar 5 / Frs.)

[illegible]

TURKEY (Mar 5 / Tk Lira)

[illegible]

## PACIFIC

JAPAN (Mar 5 / Yen)

[illegible]

HONG KONG (Mar 5 / H.K.$)

[illegible]

INDONESIA (Mar 5 / Rupiah)

[illegible]

MALAYSIA (Mar 5 / MYR)

[illegible]

NEW ZEALAND (Mar 5 / NZ $)

[illegible]

SINGAPORE (Mar 5 / S$)

[illegible]

AUSTRALIA (Mar 5 / Aust$)

[illegible]

SOUTH KOREA (Mar 5 / Won)

[illegible]

TAIWAN (Mar 5 / TW $)

[illegible]

THAILAND (Mar 5 / Baht)

[illegible]

## AMERICAS

CANADA

TORONTO (Mar 5 / Can $) 4 pm close

[illegible]

MONTREAL (Mar 5 / Can $) 4 pm close

[illegible]

MEXICO (Mar 5 / Peso) 12.30 pm

[illegible]

## AFRICA

SOUTH AFRICA (Mar 5 / Rand)

[illegible]



## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY MARCH 5 1999 US Dollar Index | %chg since 31/12/98 | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | Local % chg from 31/12/98 | Gross Div. Yield | THURSDAY MARCH 4 1999 US Dollar Index | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (75) | 208.39 | 4.6 | 191.96 | 161.06 | 221.15 | 220.58 | 2.1 | 3.37 | 205.52 | 189.52 | 160.31 | 218.53 | 219.32 | 219.56 | 163.86 | 206.33 |
| Austria (21) | 180.05 | -2.3 | 165.85 | 139.16 | 169.60 | 169.60 | 5.7 | 1.98 | 175.94 | 162.24 | 137.34 | 165.07 | 165.07 | 253.73 | 165.27 | 202.49 |
| Belgium (22) | 378.14 | -9.8 | 348.32 | 292.26 | 346.69 | 346.69 | -2.3 | 1.34 | 370.51 | 347.67 | 288.01 | 340.36 | 340.36 | 446.95 | 279.30 | 278.30 |
| Brazil (29) | 108.08 | -18.7 | 99.55 | 83.53 | 114.70 | 393.90 | 33.3 | 5.89 | 101.18 | 93.30 | 78.92 | 107.58 | 392.03 | 269.34 | 89.32 | 244.00 |
| Canada (113) | 201.56 | 1.1 | 185.68 | 155.80 | 213.93 | 221.22 | -0.2 | 1.80 | 195.47 | 180.26 | 152.47 | 207.85 | 215.92 | 248.78 | 159.94 | 228.28 |
| Denmark (34) | 429.84 | -14.0 | 395.94 | 332.22 | 456.16 | 400.35 | -7.5 | 1.74 | 426.64 | 393.44 | 332.79 | 453.65 | 398.50 | 537.33 | 420.12 | 454.30 |
| Finland (29) | 631.27 | 9.7 | 581.48 | 487.90 | 725.95 | 725.95 | 19.7 | 1.55 | 508.64 | 561.27 | 474.76 | 701.29 | 701.29 | 661.25 | 338.49 | 342.39 |
| France (74) | 316.81 | -3.2 | 291.82 | 244.86 | 300.43 | 300.43 | 4.8 | 2.05 | 303.89 | 284.25 | 240.94 | 293.49 | 293.49 | 354.45 | 253.86 | 263.19 |
| Germany (55) | 248.42 | -11.8 | 228.83 | 192.00 | 232.80 | 232.80 | -4.3 | 1.66 | 240.21 | 221.51 | 187.37 | 225.54 | 225.54 | 325.81 | 226.35 | 248.25 |
| Greece (36) | 387.53 | 11.4 | 358.98 | 299.51 | 411.26 | 823.82 | 18.0 | 1.04 | 383.93 | 354.04 | 299.47 | 408.23 | 818.19 | 429.65 | 211.47 | – |
| Hong Kong, China (66) | 294.18 | -4.3 | 270.98 | 227.37 | 312.20 | 292.65 | -4.3 | 4.14 | 286.32 | 264.04 | 223.34 | 304.45 | 284.87 | 362.52 | 196.64 | 338.16 |
| Indonesia (24) | 45.82 | -8.6 | 42.20 | 35.41 | 48.62 | 249.73 | 2.1 | 1.16 | 46.80 | 43.16 | 36.51 | 49.76 | 255.81 | 64.52 | 19.04 | 45.98 |
| Ireland (14) | 535.50 | -2.9 | 493.26 | 413.86 | 547.67 | 547.67 | 5.1 | 1.93 | 527.36 | 486.31 | 411.35 | 540.39 | 540.39 | 605.85 | 396.15 | 474.77 |
| Italy (53) | 169.06 | -5.5 | 155.73 | 130.67 | 225.31 | 225.31 | 2.3 | 1.44 | 163.25 | 150.54 | 127.34 | 217.98 | 217.98 | 192.64 | 128.68 | 139.90 |
| Japan (445) | 97.84 | -2.6 | 90.12 | 75.62 | 103.63 | 75.62 | 5.5 | 0.98 | 93.31 | 86.05 | 72.79 | 98.22 | 72.79 | 104.84 | 76.83 | 103.96 |
| Mexico (29) | 1265.37 | 10.8 | 1165.56 | 977.98 | 1342.85 | 13644.63 | 10.5 | 1.88 | 1226.12 | 1130.89 | 956.41 | 1303.75 | 13321.33 | 1733.73 | 787.15 | 1568.88 |
| Netherlands (26) | 482.65 | -8.9 | 444.59 | 373.04 | 447.40 | 447.40 | -1.4 | 2.14 | 468.58 | 432.11 | 365.50 | 435.20 | 435.20 | 582.73 | 394.92 | 451.74 |
| New Zealand (18) | 64.08 | 8.6 | 59.03 | 49.53 | 68.01 | 64.16 | 8.2 | 4.39 | 63.52 | 58.58 | 49.55 | 67.54 | 63.97 | 77.84 | 45.68 | 75.82 |
| Norway (37) | 232.05 | 5.7 | 213.74 | 179.34 | 248.26 | 248.93 | 9.8 | 1.93 | 224.65 | 207.16 | 175.23 | 238.87 | 242.28 | 357.71 | 181.86 | 307.89 |
| Philippines (22) | 88.38 | -2.2 | 81.41 | 68.31 | 93.79 | 172.44 | -1.5 | 0.94 | 87.43 | 80.63 | 68.20 | 92.97 | 170.80 | 106.98 | 42.48 | 93.35 |
| Portugal (19) | 238.53 | -7.2 | 219.72 | 184.35 | 301.85 | 301.85 | 9.4 | 1.09 | 235.73 | 217.38 | 183.88 | 298.70 | 298.70 | 290.39 | 194.13 | – |
| Singapore (40) | 207.61 | -4.0 | 191.23 | 160.46 | 220.32 | 165.27 | 0.5 | 1.68 | 205.30 | 189.32 | 160.14 | 218.29 | 164.21 | 246.74 | 102.45 | 211.70 |
| South Africa (35) | 200.89 | 9.8 | 185.05 | 155.27 | 213.19 | 272.87 | 15.0 | 3.49 | 197.05 | 181.72 | 153.71 | 209.53 | 268.54 | 346.20 | 151.55 | 272.81 |
| Spain (30) | 377.32 | -5.7 | 347.58 | 291.62 | 438.32 | 438.32 | 2.1 | 1.58 | 370.16 | 341.35 | 288.74 | 430.85 | 430.85 | 436.19 | 290.81 | 330.80 |
| Sweden (43) | 517.78 | 3.1 | 478.92 | 400.17 | 549.47 | 630.86 | 4.7 | 1.96 | 506.55 | 467.12 | 395.12 | 538.61 | 620.38 | 628.19 | 379.18 | 515.94 |
| Switzerland (30) | 394.73 | -4.8 | 363.60 | 305.08 | 418.90 | 359.07 | 1.7 | 1.19 | 388.78 | 358.52 | 303.26 | 413.30 | 353.93 | 441.65 | 307.73 | 377.93 |
| Thailand (31) | 21.00 | -11.5 | 19.34 | 16.23 | 22.28 | 30.54 | -3.7 | 2.95 | 20.90 | 19.27 | 16.30 | 22.22 | 30.86 | 33.84 | 8.15 | 30.02 |
| United Kingdom (201) | 388.31 | 2.7 | 357.68 | 300.12 | 412.09 | 357.68 | 6.1 | 2.60 | 381.66 | 351.95 | 297.71 | 405.82 | 351.95 | 401.84 | 307.96 | 365.75 |
| USA (612) | 526.14 | 3.8 | 484.64 | 406.65 | 558.36 | 526.14 | 3.8 | 1.25 | 514.56 | 474.50 | 401.37 | 547.13 | 514.56 | 527.72 | 390.12 | 422.54 |
| Americas (783) | 466.22 | 3.6 | 429.45 | 360.33 | 494.77 | 385.94 | 3.8 | 1.29 | 455.72 | 420.25 | 355.48 | 484.57 | 387.22 | 407.90 | 347.50 | 383.19 |
| Europe (723) | 349.81 | -3.1 | 322.22 | 270.36 | 371.23 | 335.25 | 2.9 | 2.05 | 341.91 | 315.29 | 266.70 | 363.55 | 328.29 | 388.24 | 282.63 | 320.10 |
| Eurobloc (342) | 98.79 | -6.8 | 91.00 | 76.35 | 100.19 | 100.19 | -5.5 | 1.80 | 95.99 | 88.52 | 74.87 | 97.55 | 97.55 | 113.92 | 81.53 | – |
| Nordic (143) | 497.17 | 2.0 | 457.96 | 384.25 | 527.62 | 523.79 | 6.6 | 1.31 | 485.12 | 447.36 | 378.41 | 515.83 | 513.10 | 555.97 | 350.04 | 449.40 |
| Pacific Basin (721) | 105.80 | -2.1 | 97.46 | 81.77 | 112.28 | 83.91 | 4.2 | 1.51 | 101.54 | 93.64 | 79.20 | 107.97 | 81.20 | 114.16 | 82.88 | 113.28 |
| Euro-Pacific (1444) | 207.22 | -2.8 | 190.88 | 160.16 | 218.91 | 178.31 | 3.3 | 1.89 | 201.48 | 185.79 | 157.16 | 214.23 | 173.99 | 221.79 | 166.00 | 199.54 |
| North America (725) | 504.04 | 3.7 | 464.29 | 389.56 | 534.91 | 505.04 | 3.7 | 1.27 | 492.80 | 454.44 | 384.40 | 524.00 | 493.88 | 506.43 | 374.92 | 410.20 |
| Europe Ex. UK (522) | 319.74 | -5.8 | 294.52 | 247.12 | 339.32 | 314.43 | 1.3 | 1.71 | 311.59 | 287.34 | 243.05 | 331.32 | 307.03 | 386.32 | 280.93 | 288.21 |
| Europe Ex. Eurobloc (381) | 97.86 | 0.9 | 90.14 | 75.63 | 103.85 | 100.46 | 5.0 | 2.29 | 96.21 | 88.72 | 75.04 | 102.30 | 98.91 | 103.93 | 77.40 | – |
| Europe Ex. UK Ex. Eurobloc (180) | 95.56 | -2.8 | 88.03 | 73.86 | 101.42 | 98.54 | 2.6 | 1.42 | 94.01 | 86.69 | 73.33 | 99.96 | 95.17 | 109.21 | 75.16 | – |
| Pacific Ex. Japan (276) | 181.81 | 0.0 | 167.47 | 140.52 | 192.95 | 186.67 | -0.5 | 3.51 | 178.58 | 164.88 | 139.30 | 189.88 | 184.16 | 216.04 | 128.26 | 200.32 |
| World Ex. Eurobloc (1920) | 107.15 | 2.3 | 98.69 | 82.81 | 113.71 | 107.03 | 4.1 | 1.51 | 104.57 | 96.43 | 81.56 | 111.19 | 104.64 | 108.05 | 83.09 | – |
| World Ex. US (1650) | 206.69 | -2.6 | 190.39 | 159.75 | 219.34 | 183.26 | 3.4 | 1.92 | 200.91 | 185.27 | 156.72 | 213.63 | 178.85 | 221.91 | 165.95 | 202.97 |
| World Ex. UK (2061) | 302.07 | 0.6 | 278.25 | 233.47 | 320.57 | 274.92 | 3.3 | 1.43 | 294.33 | 271.42 | 229.58 | 312.97 | 288.39 | 311.48 | 238.11 | 264.97 |
| World Ex. Japan (1817) | 414.69 | 1.2 | 381.98 | 320.51 | 440.09 | 411.15 | 3.4 | 1.62 | 405.41 | 373.85 | 316.28 | 431.07 | 402.38 | 427.99 | 320.58 | 358.33 |
| The World Index (2262) | 309.50 | 0.8 | 285.09 | 239.21 | 328.45 | 282.51 | 3.6 | 1.55 | 301.85 | 278.35 | 235.45 | 320.96 | 276.03 | 318.51 | 242.36 | 273.50 |

 CONSTITUENT CHANGES DURING THE WEEK ENDING 5/3/99: Name changes: Vaux Group to Swallow Group (UK), Philips Electronics to Koninklijke Philips Electronic.

## Emerging markets:

### IFC Investable indices

Dollar terms

[illegible]

4 pm close March 5

# NEW YORK STOCK EXCHANGE PRICES



Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vdi- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
† Dealings suspended.

# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 9736.08 | 9467.40 | 9275.88 | 9736.08 (5/3/99) | 7539.07 (31/8/98) | 9736.08 (5/3/99) | 41.22 (8/7/32) |
| Home Bonds | 104.41 | 104.05† | 104.34 | 107.17 (9/12/98) | 104.13 (25/2/98) | 107.17 (9/12/98) | 54.99 (1/10/81) |
| Transport | 3312.79 | 3255.18 | 3248.69 | 3686.02 (16/4/98) | 2345.00 (8/10/98) | 3686.02 (16/4/98) | 13.23 (8/7/32) |
| Utilities | 301.51 | 297.11 | 292.97 | 320.51 (8/10/98) | 262.66 (9/1/98) | 320.51 (8/10/98) | 16.53 (8/7/32) |

DJ Ind. Day's high (a) (9649.88) Low (d) (9272.08) (Theoretical‡)
Day's high 9738.79(9480.71) Low 9487.67 (9276.72) (Actual‡)

| Standard and Poors | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 1275.47 | 1246.64 | 1227.70 | 1279.64 (29/1/99) | 927.69 (9/1/98) | 1279.64 (29/1/99) | 4.40 (1/6/32) |
| Industrials♥ | 1527.93 | 1492.81 | 1471.29 | 1551.85 (29/1/99) | 1077.40 (9/1/98) | 1551.85 (29/1/99) | 3.52 (30/6/32) |
| Financial♥ | 140.50 | 137.33 | 134.62 | 147.69 (14/7/98) | 95.80 (8/10/98) | 147.69 (14/7/98) | 7.13 (4/9/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 603.14 | 590.75 | 582.55 | 611.06 (8/1/99) | 477.20 (8/10/98) | 611.06 (8/1/99) | 4.64 (25/4/42) |
| Amex Comp | 707.41 | 698.52 | 694.45 | 753.67 (22/4/98) | 583.75 (8/10/98) | 753.67 (22/4/98) | 524.20 (16/7/96) |
| NASDAQ Cmp | 2337.11 | 2292.89 | 2265.20 | 2510.09 (1/2/99) | 1419.12 (8/10/98) | 2510.09 (1/2/99) | 54.87 (3/10/74) |
| Russell 2000 | 398.01 | 394.02 | 391.95 | 491.41 (21/4/98) | 310.28 (8/10/98) | 491.41 (21/4/98) | 123.36 (7/12/83) |

### ■ RATIOS

| | Feb 26 | Feb 19 | Feb 12 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.67 | 1.66 | 1.66 | 1.63 |
| | Mar 3 | Feb 24 | Feb 17 | Year ago |
| S & P Ind. Div. yield | 1.17 | 1.14 | 1.19 | 1.39 |
| S & P Ind. P/E ratio | 38.32 | 38.67 | 37.72 | 28.76 |

## US DATA

### ■ MARKET ACTIVITY

| ● Volume (million) | Mar 5 | Mar 4 | Mar 3 |
|---|---|---|---|
| NYSE | 834.258 | 774.802 | 751.720 |
| Amex | 26.038 | 24.716 | 20.410 |
| NASDAQ | 851.640 | 887.654 | 868.095 |

| NYSE | Mar 5 | Mar 4 | Mar 3 |
|---|---|---|---|
| Issues Traded | 3,540 | 3,496 | 3,527 |
| Rises | 2,065 | 1,710 | 1,306 |
| Falls | 916 | 1,186 | 1,640 |
| Unchanged | 559 | 600 | 581 |
| New Highs | 83 | 29 | 27 |
| New Lows | 43 | 86 | 97 |

### ■ NYSE TRADING ACTIVITY — Volume : 834,258,078

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Compaq | 19,212,700 | 34¼ | +¾ |
| Citgrp | 10,881,000 | 61¾ | +1¼ |
| AmOnLne | 9,321,400 | 86¾ | +¾ |
| AT&T | 8,538,500 | 87¾ | +3⅛ |
| MeHBOC | 7,559,700 | 61⅛ | −4⅛ |
| MicrnTech | 6,812,200 | 60 | +7¾ |
| MedOne | 6,718,300 | 56⅞ | +1⅛ |
| WalMrt | 6,622,000 | 93¼ | +3⅞ |
| LucentTch | 5,952,900 | 104½ | +2¾ |
| BankAm | 5,652,200 | 68⅛ | +2⅜ |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| StJoeL&P | 20⅝ | +3½ | +20.3 |
| ChqBrnds | 10½ | +1½ | +17.0 |
| SprPCS | 35⅝ | +4⅝ | +15.0 |
| MicrnTech | 60 | +7¼ | +13.7 |
| Medist | 12⅞ | +1⅜ | +12.0 |
| **Downs** | | | |
| AllWsting | 15 | −5 | −25.0 |
| SciAtl | 28¾ | −3⅝ | −11.9 |
| SterlCom | 26¼ | −3½ | −11.9 |

### ■ NASDAQ TRADING ACTIVITY — Volume :851,649,417

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| DellCmp | 26,475,000 | 86¾ | +4½ |
| Intel | 21,189,900 | 114¾ | +1¼ |
| LevOne | 18,588,200 | 45 | +17⅞ |
| 3Com | 14,005,300 | 24¾ | −⅛ |
| CiscoSys | 11,964,300 | 100¾ | +2¾ |
| Micsft | 11,706,400 | 154¾ | +2¾ |
| ApplMat | 8,574,000 | 61¾ | +4⅛ |
| eBay Inc | 8,210,300 | 149⅛ | +18¾ |
| Yahoo | 7,905,300 | 159¾ | +8¾ |
| MCIWcm | 7,573,100 | 82¼ | +⅞ |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| LevOne | 45 | +17⅞ | +65.9 |
| DoubleClic | 119¾ | +22⅞ | +23.7 |
| CNET | 168 | +28¼ | +20.2 |
| PSS World | 12 | +1½ | +14.3 |
| eBay Inc | 149⅛ | +18¾ | +14.1 |
| **Downs** | | | |
| IDX Sys | 14½ | −11½ | −44.2 |
| MediMangCp | 24⅛ | −3⅞ | −13.7 |
| ArchCm | 35⅞ | −4½ | −11.3 |

**Dow Jones** (chart, 25 26 1 2 3 4 5, Feb 1999; scale 9200–9800)

**FTSE Eurotop 300** (chart, 25 26 1 2 3 4 5, Feb 1999; scale 1190–1240)

## JAPAN

| | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Nikkei 225 | 14894.00 | 14183.45 | 14170.36 | 17264.3 | 12880 | 38915.9 | 85.25 |

Day's high. 14895.39. Day's low 14258.02.

### ■ TOKYO TRADING ACTIVITY — Volume : 869,850,000

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Toshiba | 21,848,000 | 770 | +48 |
| KawStl | 11,845,000 | 186 | +6 |
| Sakura | 11,780,000 | 259 | +9 |
| FujiBk | 10,560,000 | 483 | +42 |
| NpStl | 10,165,000 | 220 | +7 |
| KawKan | 8,259,000 | 197 | +20 |
| BTokM | 8,004,000 | 1380 | +27 |
| Hitachi | 7,994,000 | 775 | +35 |
| DaiwaSc | 6,993,000 | 486 | +17 |
| SomMt | 6,917,000 | 118 | +5 |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| NttoB | 280 | +42 | +17.6 |
| SaitbuR | 2790 | +400 | +16.7 |
| NpSher | 390 | +53 | +15.7 |
| Tosob | 188 | +25 | +15.3 |
| **Downs** | | | |
| Renown | 80 | −6 | −6.1 |
| SonyME | 7110 | −190 | −2.6 |
| Shmchu | 2310 | −40 | −1.7 |
| Ryobi | 210 | −3 | −1.4 |

## FRANCE

| | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| CAC 40 | 4189.56 | 4087.99 | 4004.16 | 4388.48 | 2862.54 | 4388.48 | 984.61 |

Day's high: 4213.84. Day's low: 4111.90.

### ■ PARIS TRADING ACTIVITY — Volume : 593,195,650

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| TotalB | 1,908,585 | 103 | +1.7 |
| Alctel | 1,905,382 | 118.8 | +5.9 |
| FrTele | 1,694,078 | 83.05 | +1.05 |
| ElfAqu | 1,647,735 | 111 | +5.3 |
| Renault | 1,585,308 | 37 | +1.04 |
| Axa | 1,434,786 | 117 | +5.3 |
| SocGen | 1,137,257 | 147.7 | +8.4 |
| BNP | 881,877 | 80 | +0.1 |
| RhonPA | 873,486 | 43.98 | +1.66 |
| Usinor | 835,360 | 11.02 | +0.38 |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| ThmCSF | 30.69 | +2.69 | +9.6 |
| Moulnx | 10.4 | +0.7 | +7.2 |
| SommA | 22.5 | +1.5 | +7.1 |
| Peug't | 128.8 | +7.8 | +6.4 |
| SocGen | 147.7 | +8.4 | +6.0 |
| SodxAl | 152 | +7.8 | +5.4 |
| **Downs** | | | |
| Alstom | 22 | −1.1 | −4.8 |
| Lapeyr | 61.1 | −2.9 | −4.5 |

## GERMANY

| | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DAX | 4839.09 | 4678.72 | 4697.67 | 6171.43 | 3896.08 | 6171.43 | 931.18 |

Day's high: 4862.45 Day's low: 4734.76.

### ■ FRANKFURT TRADING ACTIVITY — Volume : 11,480,229

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Siemens | 329,372 | 59.65 | +2.95 |
| DmlrCh | 280,859 | 83.6 | +2.9 |
| Bayer | 235,909 | 31.8 | +0.1 |
| BASF | 205,153 | 31.5 | +0.6 |
| Metro | 187,994 | 60.6 | +1.9 |
| H'chst | 187,338 | 40.5 | +2.65 |
| MAN | 170,953 | 25.4 | +1.8 |
| Dt Tel | 145,530 | 41 | +1.2 |
| Mnsflg | 140,344 | 17.45 | +1.45 |
| RWE | 131,509 | 38.1 | +1.9 |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Mnsflg | 17.45 | +1.45 | +9.1 |
| H'chst | 40.5 | +2.65 | +7.0 |
| MAN | 25.4 | +1.6 | +6.7 |
| MAN Pf | 18 | +1.1 | +6.5 |
| ProSPf | 48 | +2.7 | +6.0 |
| **Downs** | | | |
| FinanPf | 36 | −1.7 | −4.5 |
| BelBg | 17.9 | −0.8 | −4.3 |
| SGLCar | 38.6 | −1.7 | −4.2 |

## UK

| | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 6205.5 | 6101.4 | 6048.3 | 6307.6 | 4648.7 | 6307.8 | 986.9 |

Day's high: 6243.3. Day's low: 6101.4

### ■ LONDON TRADING ACTIVITY — Volume : 1,212,000,000

| ■ ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| BP Amoco | 34,976,740 | 936 | +34 |
| Signet | 34,049,870 | 41½ | −½ |
| Shell | 33,018,210 | 380 | +10½ |
| BTR Siebe | 28,098,360 | 275 | +5 |
| Sema | 23,830,350 | 700½ | −18½ |
| Tadpole Tech | 23,786,890 | 15¼ | +2½ |
| LASMO | 22,890,090 | 133½ | +3½ |
| ASDA | 20,812,530 | 148 | |
| Premier Oil | 20,582,490 | 14½ | +7½ |
| BG | 16,079,770 | 355 | +4¼ |

| ■ BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Festrack | 9½ | +3¾ | +65.2 |
| Xenova | 84 | +25½ | +43.6 |
| Hawtal Whiting | 39½ | +8½ | +27.4 |
| Howard | 59½ | +10 | +20.2 |
| IES | 27½ | +4¼ | +18.3 |
| **Downs** | | | |
| Mayborn | 35 | −18½ | −34.6 |
| Swan Hill | 63½ | −9½ | −13 |
| Radiant Metal | 45 | −5 | −10 |

## INDEX FUTURES

| ■ S&P 500 | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 1250.00 | 1278.50 | +28.80 | 1279.00 | 1250.00 | 121,899 | 313,341 |
| Jun | 1263.10 | 1290.90 | +29.10 | 1291.00 | 1277.00 | 18,664 | 96,454 |
| ■ Nikkei 225 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
| Mar | 14320.0 | 14850.0 | +650.0 | 14920.0 | 14310.0 | 60,248 | 148,660 |
| Jun | 14290.0 | 14830.0 | +720.0 | 14830.0 | 14240.0 | 11,509 | 94,605 |

Open interest figures for previous day

| ■ CAC-40 (200 x index) | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 4132.5 | 4200.0 | +90.0 | 4225.0 | 4120.0 | 9,370 | 322,415 |
| Jun | 4103.0 | 4188.0 | +80.0 | 4103.0 | 4095.5 | 3,031 | 604 |
| ■ DAX | | | | | | | |
| Mar | 4793.0 | 4852.5 | +138.5 | 4887.0 | 4735.0 | 68,456 | 233,859 |
| Jun | 4820.0 | 4877.5 | +140.5 | 4909.5 | 4765.0 | 16,870 | 127,227 |

| ■ OMX | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 727.00 | 734.50 | +13.50 | 739.50 | 724.50 | 32,158 | 123,198 |
| Apr | 725.00 | 733.75 | +18.00 | 734.25 | 724.00 | 624 | 787 |
| ■ EUREX | | | | | | | |
| Mar | 7190.0 | 7216.0 | +100.0 | 7233.0 | 7138.0 | 28,260 | 130,028 |
| Jun | 7134.0 | 7161.0 | +121.0 | 7163.0 | 7090.0 | 3,353 | 9,749 |

## WORLD MARKETS AT A GLANCE

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Argentina | General | 16625.93 | 16427.36 | 16133.53 | 23485.50 23/3/98 | 12303.10 10/9/98 | 4.23 | 12.7 |

*Closed higher, tracking a record-breaking rally by Dow and renewed firmness in Brazil's currency.*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Australia | All Ordinaries | 2902.5 | 2885.3 | 2889.9 | 2940.50 4/2/99 | 2458.20 1/9/98 | 2.93 | 23.1 |
| | All Mining | 568.3 | 562.7 | 562.7 | 713.10 23/4/98 | 499.80 31/8/98 | | |

*Rallied with A$ while bonds sagged. Golds, energy stocks and telecoms outpaced as rises beat falls to 7 to 5*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Austria | ATX Index | 1171.96 | 1146.08 | 1152.07 | 1628.56 26/5/98 | 862.06 1/10/98 | 2.01 | 12.4 |

*Strong gains in banking stocks helped market to match its European peers.*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| India | BSE Sens. | 3649.08 | 3601.95 | 3640.42 | 4280.96 21/4/98 | 2764.16 20/10/98 | na | na |
| | S & P CNX 500 | 727.95 | 719.76 | 730.39 | 815.62 21/4/98 | 557.68 20/10/98 | | |

*Surged higher but ended close to opening levels as investors returned to take profits.*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Indonesia | Jakarta Comp. | 388.67 | 394.15 | 395.80 | 554.10 2/2/98 | 256.83 21/9/98 | 2.49 | 17.2 |

*Drifted lower ahead of government announcement on banking sector reforms, expected this week.*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Ireland | ISEQ Overall | 5389.06 | 5303.58 | 5307.61 | 5471.81 21/4/98 | 3745.11 8/10/98 | 1.88 | 18.3 |
| Portugal | BVL 30 | 4799.27 | 4737.06 | 4791.52 | 6178.89 22/4/98 | 3598.08 2/10/98 | 2.1 | 35.7 |
| | PSI 20 | 11076.02 | 10938.18 | 11059.46 | 14263.00 22/4/98 | 8114.51 2/10/98 | | |
| Russia | RTS | 72.07 | 70.92 | 73.33 | 411.81 5/1/98 | 38.59 5/10/98 | na | na |

*Market firmer although investors still waiting for news on domestic debt restructuring and talks with IMF.*

| Country | Index | Mar 5 | Mar 4 | Mar 3 | 1998/99 High | 1998/99 Low | % Yield | % P/E |
|---|---|---|---|---|---|---|---|---|
| Singapore | SES All-S'pore | 390.89 | 388.93 | 384.95 | 437.98 19/3/98 | 253.20 4/9/98 | 2.23 | 21.5 |
| | Straits Times | 1449.86 | 1433.41 | 1415.81 | 1698.75 19/3/98 | 805.04 4/9/98 | | |
| | [illegible] | | | | | | | |

# THE NASDAQ-AMEX MARKET GROUP

4 pm close March 5

| Stock | Div. | P/E | Vol 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

## AMEX

4 pm close March 5

| Stock | Div. | P/E | Vol 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

## EASDAQ

| Company | Mid price | Change on day | Volume | High | Low |
|---|---|---|---|---|---|
| [illegible] | | | | | |

# FT GUIDE TO THE WEEK

## MONDAY 8

### Emergency trade meeting

The Geneva-based World Trade Organisation holds an emergency meeting at the request of the European Union to discuss US trade measures imposed last week against European goods in their banana dispute. The EU argues that the US action is illegal under WTO rules and many WTO members are expected to agree. The meeting is an opportunity to let off steam but cannot force the US to change course. Instead, Washington's action is being referred to a WTO disputes panel due to rule in the autumn.

### Spotlight on UK rebate

Britain's budget rebate will come under scrutiny when the budgets committee of the European Parliament reports on the reform of European Union finances during a week-long session in Strasbourg. The parliament will also hear from the German presidency and the Commission on progress towards the special EU summit which later this month is scheduled to agree the Agenda 2000 reforms to farm spending and regional aid. Among other subjects to be debated this week are Commission plans to open up Europe's rail network to greater competition, a proposed tightening of rules on MEPs' financial interests and relations between the EU and India and central Asian countries.

### Women's Day

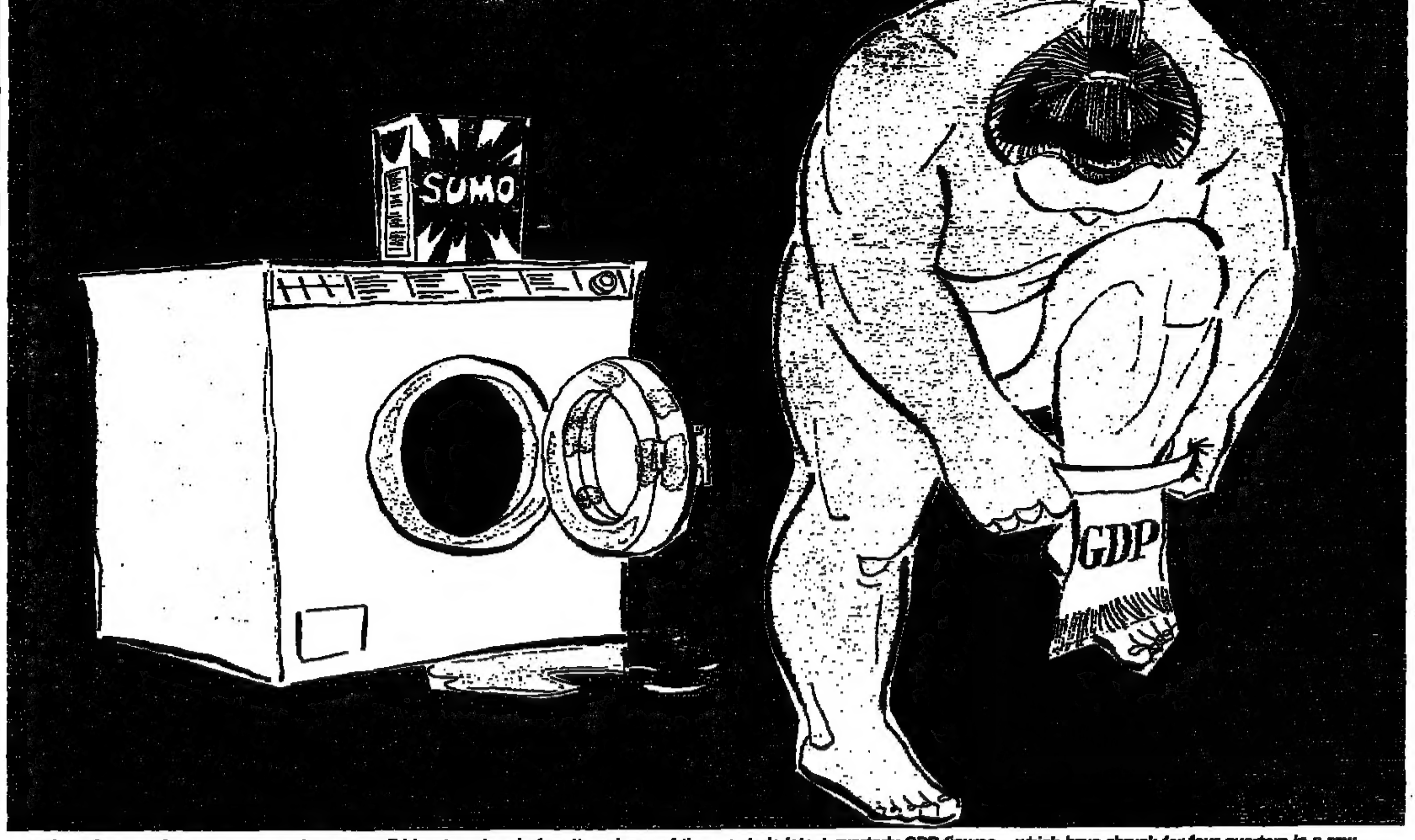
International Women's Day is marked by events around the world. While women have made great progress towards equality with men in many areas they continue to suffer discrimination. According to the United Nations Development Programme, rape and domestic violence affect up to a third of women, and nearly 100m women are "missing" from the statistics in Asian countries due to selective abortion and infanticide. In 1998, UNDP says, women lagged behind men in every area of human development.

### Hurricane watch

President Bill Clinton travels to Central America to see areas hit by Hurricane Mitch. He will visit Nicaragua, Honduras, El Salvador and Guatemala.

### Nato anniversary

Madeleine Albright, the US secretary of state, Javier Solana, secretary-general of the North Atlantic Treaty Organisation, Wesley Clark, Nato supreme commander, and the defence ministers of Britain, France, Germany and Russia, as well as Georgian president Eduard Shevardnadze, are provisionally scheduled to speak at a Royal United Services Institute event in London to celebrate the 50th anniversary of Nato.


Japan's spring grand sumo tournament opens on Friday, two days before the release of the country's latest quarterly GDP figures – which have shrunk for four quarters in a row

### Norwegian budget

Norway's minority centre-led coalition government meets near Jevnaker, a small town outside Oslo, to start talks on the 2000 fiscal budget. Last year the government was forced to reach a compromise on taxes with the conservative coalition parties in order to preserve plans for increased child benefit.

### FT survey

Bulgaria.

### Holidays

Eritrea, Syria, Uganda, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

## TUESDAY 9

### UK spending plans

Gordon Brown, British chancellor of the exchequer, unveils his third Budget to parliament, centred on the themes "work, enterprise and the family". With the Treasury still expecting its earlier forecasts of a "soft landing" for the economy to be borne out, Mr Brown is unlikely drastically to revise his growth forecasts for this year or next. And City economists expect the Budget to be broadly neutral from a macroeconomic perspective, with few implications for monetary policy. The Treasury's fiscal plans are already set to ease next year, thanks to increased government spending, and there are already planned tax increases such as a restriction in the married couple's allowance and extra excise duty increases. Possible changes include a further reduction or outright abolition of mortgage tax relief, introduction of a 10 per cent starting band of income tax and changes to encourage entrepreneurship.

### Farm deadlock

European Union farm ministers reconvene in Brussels in an attempt to break the deadlock in talks on reform of Common Agricultural Policy. The Germany presidency of the EU has set the end of this week as the deadline for agreement.

### Intel in court

The antitrust trial of Intel, the US information technology company, is scheduled to begin. The government has accused Intel of abusing its market position to freeze out and punish competitors. In June last year the Federal Trade Commission sued Intel, accusing it of denying three of its competitors – Digital Equipment, Intergraph and Compaq – access to important technical information about planned Intel products.

### Antigua goes to vote

Inhabitants of the Caribbean islands of Antigua and Barbuda elect the 19 seat House of Representatves. After the last election in 1994, the Antigua Labour party took 11 seats and formed the government. The opposition United Progressive party has challenged the accuracy of the electoral roll, which shows 56,000 voters in a country with a population of 65,000.

### Argentina appointment

Prince Charles becomes the most senior member of Britain's royal family to visit Argentina since the Falklands War in 1982. He flies on to Uruguay on March 11 and then to the Falkland Islands from March 13-14.

## WEDNESDAY 10

### Irish deadline

Provisional deadline for the formation of an executive that would return government departments to local leaders in Northern Ireland for the first time since 1974. The Ulster Unionist and Sinn Féin parties remain deadlocked over the decommissioning of arms in the hands of paramilitary groups: David Trimble, the UUP leader, has said his supporters would not allow Sinn Féin to take part unless the IRA, its military wing, started destroying weapons under international supervision.

### Holidays

Liberia.

## THURSDAY 11

### Motor city

The continuing fragmentation of new car markets into an ever-greater variety of sports-utility and multi-purpose vehicles, sports two-seaters and "city" cars will be amply demonstrated at the Geneva motor show, which opens to the public today until March 21. Toyota's sporty Lexus IS200 and new-generation MR2, a "Supersport" MGF from the UK's Rover Group and a new small off-roader from Mitsubishi – but styled by Italy's Pininfarina and to be built in Italy – provide examples of the trend. But the glitter of Geneva, one of the year's most important and international motor shows, will only partly obscure the reality that far too many cars are chasing too few customers. Europe has 20 per cent production over-capacity.

### Emissions mission

Representatives from the oil and gas industries, user industries, scientists and environmentalists meet in Rome for a three-day symposium entitled "Towards zero emissions: the challenge for hydrocarbons". The symposium, organised by the technology arm of ENI, the Italian energy group, will look at how aiming for "zero emissions" can stimulate innovative ways of cutting pollution, raising productivity and improving energy efficiency.

### FT surveys

Puerto Rico; Barcelona.

### Holiday

Lithuania.

## FRIDAY 12

### Decision time

European justice and home affairs ministers meet in Brussels to discuss important questions relating to the way decisions on asylum, immigration and other matters are taken within the EU. Issues on the agenda include ratification of the Europol convention and further refinement of the Schengen open borders agreement.

### Spring sumo

The 15-day spring grand sumo tournament opens in Osaka. Chiyotaikai, who won his first emperor's cup in January, will join the ozeki, the second highest rank. Wakanohana, yokozuna grand champion, will replace his yokozuna brother, Takanohana, as the grand champion on the prestigious east yokozuna spot and seek to win his sixth title.

### FT Surveys

UK Mid Market Companies (UK editions only); Latin American Finance.

### Holiday

Mauritius.

## SUNDAY 14

### Shrinking GDP

Japan's Economic Planning Agency will today announce gross domestic product data for the October-December quarter of 1998. The GDP figures have shown negative growth for four consecutive quarters, shrinking by 0.7 per cent in the last quarter from the previous quarter and by 2.6 per cent annually.

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# ECONOMIC DIARY

### Other economic news

**Monday:** The weakness of the UK manufacturing sector will again be highlighted by a set of weak output figures.
**Tuesday:** Unemployment in Germany is thought to have risen in February, mainly as a result of cold weather. The recent signs of weakness in the economy may also contribute to a 10,000-15,000 increase in the jobless total.
**Wednesday:** Germany's substantial trade surplus in January may turn into a deficit on the current account, thanks to a large deficit in invisibles.
**Thursday:** A tale of two current accounts this week: Japan's surplus is likely to have surged again in January, as exports of goods remain strong and imports fall off. Fewer Japanese travelling abroad may have also contributed. Meanwhile, the US current account deficit may improve slightly, but is still expected to be around $55bn in the fourth quarter.
**Friday:** "Disinflation" in US manufacturing may cease to be a talking point if the producer prices index shows the trend of falling goods prices is at an end.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Mon | UK | Jan industrial production* | -0.3% | -0.8% |
| Mar 8 | UK | Jan industrial production** | -0.2% | 0.1% |
| | UK | Jan manufactured output* | -0.3% | -0.6% |
| | UK | Jan manufactured output** | -1.4% | -1.0% |
| | UK | Feb producer price index input* | -0.2% | 0.4% |
| | UK | Feb PPI input** | -6.2% | -6.9% |
| | UK | Feb PPI output* | -0.1% | 0.1% |
| | UK | Feb PPI output** | 0% | 0% |
| | UK | Feb PPI ex food/drink/tobacco** | -0.7% | -0.7% |
| Tue | UK | Feb BRC retail survey** | | 2.5% |
| Mar 9 | Germany | Feb unemployment pan Germany† | -10,000 | -59,000 |
| | Germany | Feb unemployment West Germany† | -10,000 | -37,000 |
| | Germany | Feb unemployment East Germany† | 0 | -21,000 |
| | Germany | Dec employment West Germany† | -10,000 | -4,000 |
| | Germany | Feb vacancies West Germany† | | 2,000 |
| | Germany | Feb short time West Germany | | 33,000 |
| | US | Jan wholesale inventories | | 0.5% |
| | US | Jan wholesale sales | | 1.2% |
| | US | Q4 productivity revision | 4.1% | 3.7% |
| Wed | Germany | Jan trade balance | DM6bn | DM5.8bn |
| Mar 10 | Germany | Jan current account | -DM9.2bn | -DM1bn |
| Thur | Japan | Jan machine orders ex elec/ships** | 24.7% | -14.3% |
| Mar 11 | Japan | Jan machine orders ex elec/ships | -4.3% | -3.1% |
| | US | Feb retail sales | 0.8% | 0.2% |
| | US | Feb retail sales ex auto | 0.6% | 0.2% |

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| | US | Initial claims Mar 6 | 290,000 | 286,000 |
| | US | State benefits Feb 27 | | 2,194,000 |
| | US | Q4 current account | | -$61.3bn |
| | US | Feb export price index | -0.1% | unchanged |
| | US | Feb import price index | unchanged | 0.2% |
| | US | M1 week ended Mar 1 | $2.5bn | $10.7bn |
| | US | M2 week ended Mar 1 | $3bn | $15.3bn |
| | US | M3 week ended Mar 1 | $3bn | $19.8bn |
| | US | Feb monthly M1 | $3.5bn | -$2.9bn |
| | US | Feb monthly M2 | $23.6bn | $23.3bn |
| | US | Feb monthly M3 | $57.9bn | $22.6bn |
| Fri | US | Feb PPI | -0.1% | 0.5% |
| Mar 12 | US | Feb PPI ex food/energy | 0.1% | -0.1% |
| | US | Jan business inventories | 0.1% | unchanged |
| | US | Feb Atlanta federal index | | 10.3 |
| | US | Mar Michigan sentiment prel | 108.0 | N/A |
| | US | Feb bank credit | | -6.8% |
| During the week... | | | | |
| | Germany | Jan capital account final | | -DM36.5bn |
| | Germany | Jan foreign security purchases | | DM13.1bn |
| | Germany | Jan retail sales, real** | -3.0% | 1.0% |
| | Germany | Jan retail sales, real†* | N/A | -4.7% |
| | Germany | Feb wholesale price index* | 0.2% | 0.3% |
| | Japan | Jan current account | Y942bn | Y469bn |

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy Standard & Poor's MMS.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| ½ hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh | TS use of system price £/MWh |
|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

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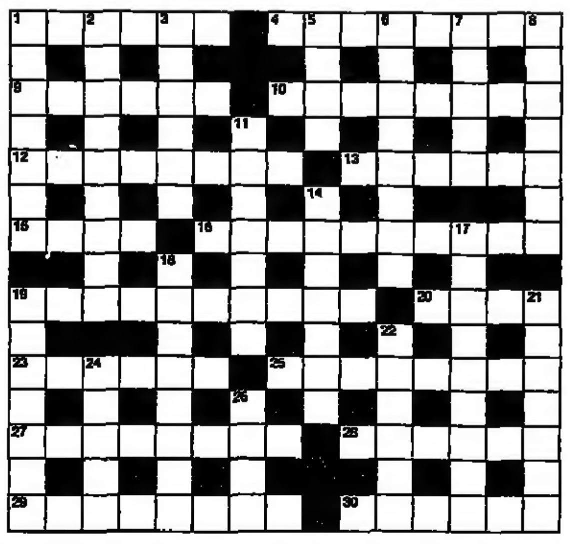
|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## MONDAY PRIZE CROSSWORD
No.9,932 Set by DANTE

**ACROSS**
1 Sarah depressed, rather jaundiced (6)
4 Deceives more than once (3-5)
9 Hassles with top dentures? (6)
10 Study merely to cope with changed circumstances (8)
12 Craft room suitable for the staff dance? (8)
13 Sure to change one's ways (6)
15 Gets harder scenes to play (4)
16 New play gripped mother, say, visibly (10)
19 No longer minding you're too old for love (4,6)
20 Harbour transport (4)
23 They make us cold – and wet (6)
25 Regulation colours (8)
27 Attended, but caused embarrassment (6,2)
28 Spring changes course (6)
29 Pier gets shaken – still standing (8)
30 It's experienced in poetic form (6)

**DOWN**
1 Complaints of wives about the week-end (7)
2 Cobbler's farewell ceremony? (4,5)
3 Fancy us to be stupid (6)
5 Cry a little, quietly (4)
6 Swimmers who may develop into jumpers (8)
7 Height of a horse? (5)
8 Meet, and come up to expectations (7)
11 Policemen make very little money (7)
14 Mounting horse, catches birds (7)
17 Utah's sure to be found in a work of reference (9)
18 Dictates one way to prove gold genuine (4,4)
19 Catches a disease, perhaps, but improves (5,2)
21 Communist leader is a flaming capitalist (7)
22 International organisation finished, ruined (6)
24 Sea-air adds a little weight to one (5)
26 Celebrated Chinese dynasty (4)




Winner of Puzzle No.9,920: Mrs M.J. Moss, Edinburgh

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday March 18, marked Monday Crossword 9,932 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 22. Please allow 28 days for delivery of prizes.

Name.............................................

Address.............................................

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### Solution 9,920

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INSTANCE MORSEL
N O D O   F P I
COMPOUND OFFICE
I B N S   A N G
TURBINES ONEDGE
E E S C I D L M
    GRANDOPERA
C M G A N N S N
ABERRATION
R N A E V F P P
OSTEND BADINAGE
U A D   T D L L
SOLDER WINDFALL
A L U   O L T E
LAYERS INTEREST
```



### JOTTER PAD